

**LAKEWOOD 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
Lakewood City School District
1470 Warren Road
Lakewood, Ohio 44107

We have reviewed the *Independent Auditor's Report* of the Lakewood 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 Lakewood City School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 13, 2013

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

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

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Education
Lakewood City School District
Lakewood, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lakewood 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 Lakewood 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lakewood 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the Lakewood 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 not 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, as listed in the table of contents, 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 Lakewood 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

December 14, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management's discussion and analysis of Lakewood 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets increased \$1,606,099. Net assets of governmental activities increased \$1,576,047, which represents an 6.39% increase from 2011. Net assets of business-type activities increased \$30,052 from 2011.
- Governmental activities general revenues accounted for \$70,655,641 in revenue or 83.07% of all governmental activities revenues. Governmental activities program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for 14,397,282 or 16.93% of total governmental activities revenues of \$85,052,923.
- The District had \$83,476,876 in expenses related to governmental activities; only \$14,397,282 of these expenses were offset by program specific charges for services, operating grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$70,655,641 were adequate to provide for these programs.
- The District had \$1,890,110 in expenses related to business-type activities; a total of \$1,919,195 were offset by program specific charges for services, grants and contributions. General revenues include only investment earnings of \$967. Total revenues were adequate to provide for these programs by \$30,052 resulting in an increase in net assets from \$112,070 to a balance of \$142,122.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$69,056,200 in revenues and other financing sources and \$66,875,055 in expenditures and other financing uses. The general fund's fund balance increased \$2,181,145 from \$13,757,211 to \$15,938,356.
- Another of the District's major governmental funds is the debt service fund. The debt service fund had \$9,185,120 in revenues and \$8,898,088 in expenditures. The debt service fund's fund balance increased \$287,032 from \$5,955,725 to \$6,242,757.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Using these Basic Financial Statements

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 and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the statement of net assets and the 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, pupil transportation and extracurricular activities.

Business-type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's recreation programs and food service operations are reported as business-type activities.

The District's statement of net assets and statement of activities can be found on pages 17-19 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service 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 the statement of activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 20-24 of this report.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 25-27 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 28-29. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-77 of this report.

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

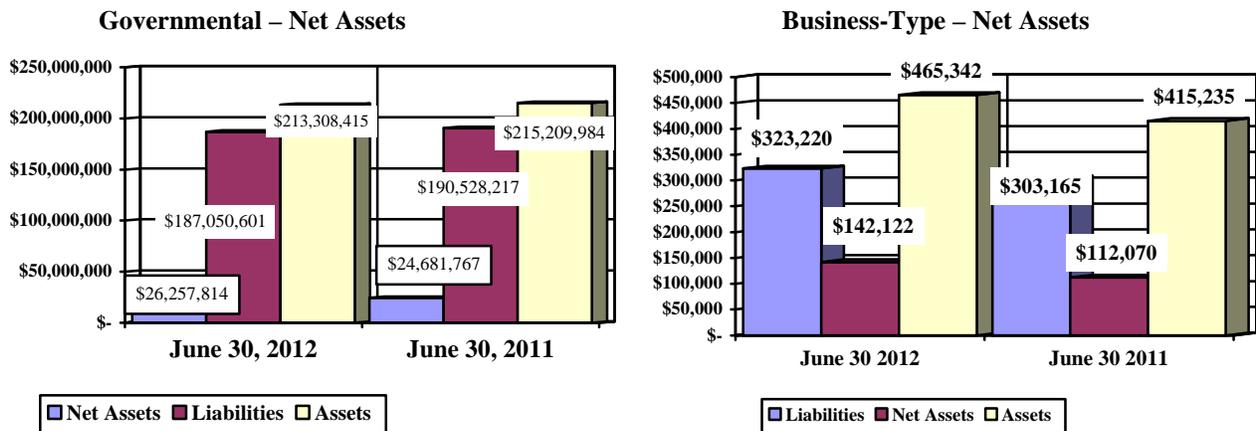
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets	\$ 80,891,234	\$ 78,905,278	\$ 417,638	\$ 358,972	\$ 81,308,872	\$ 79,264,250
Capital assets, net	132,417,181	136,304,706	47,704	56,263	132,464,885	136,360,969
Total assets	213,308,415	215,209,984	465,342	415,235	213,773,757	215,625,219
Liabilities						
Current liabilities	49,389,517	49,569,821	219,639	206,292	49,609,156	49,776,113
Long-term liabilities	137,661,084	140,958,396	103,581	96,873	137,764,665	141,055,269
Total liabilities	187,050,601	190,528,217	323,220	303,165	187,373,821	190,831,382
Net Assets						
Invested in capital assets, net of related debt	21,697,856	20,712,915	47,704	56,263	21,745,560	20,769,178
Restricted	8,910,341	9,227,464	-	-	8,910,341	9,227,464
Unrestricted (deficit)	(4,350,383)	(5,258,612)	94,418	55,807	(4,255,965)	(5,202,805)
Total net assets (deficit)	\$ 26,257,814	\$ 24,681,767	\$ 142,122	\$ 112,070	\$ 26,399,936	\$ 24,793,837

The graphs below show the District's assets, liabilities and net assets at June 30, 2012 and June 30, 2011.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The table below shows the changes in net assets for fiscal years 2012 and 2011.

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services and sales	\$ 5,867,359	\$ 4,885,242	\$ 908,192	\$ 918,235	\$ 6,775,551	\$ 5,803,477
Operating grants and contributions	8,529,923	12,081,941	1,011,003	1,160,721	9,540,926	13,242,662
General revenues:						
Property taxes	47,237,771	46,090,136	-	-	47,237,771	46,090,136
Grants and entitlements	23,165,464	24,305,558	-	-	23,165,464	24,305,558
Investment earnings	135,170	155,323	967	806	136,137	156,129
Payment in lieu of taxes	38,454	67,210	-	-	38,454	67,210
Miscellaneous	78,782	67,799	-	-	78,782	67,799
Total revenues	85,052,923	87,653,209	1,920,162	2,079,762	86,973,085	89,732,971

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	30,235,236	29,259,061	-	-	30,235,236	29,259,061
Special	12,459,521	13,821,513	-	-	12,459,521	13,821,513
Vocational	2,799,524	2,906,196	-	-	2,799,524	2,906,196
Adult/continuing	336,391	291,651	-	-	336,391	291,651
Other	3,439,772	3,450,482	-	-	3,439,772	3,450,482
Support services:						
Pupil	4,372,941	4,590,126	-	-	4,372,941	4,590,126
Instructional staff	4,688,599	4,621,838	-	-	4,688,599	4,621,838
Board of education	84,593	97,469	-	-	84,593	97,469
Administration	3,550,527	3,396,433	-	-	3,550,527	3,396,433
Fiscal	1,670,738	1,714,244	-	-	1,670,738	1,714,244
Business	857,951	1,004,529	-	-	857,951	1,004,529
Operations and maintenance	7,879,818	7,585,509	-	-	7,879,818	7,585,509
Pupil transportation	56,159	79,336	-	-	56,159	79,336
Central	457,832	447,441	-	-	457,832	447,441
Operation of non-instructional services	2,882,454	2,886,651	-	-	2,882,454	2,886,651
Extracurricular activities	1,420,426	1,275,495	-	-	1,420,426	1,275,495
Interest and fiscal charges	6,284,394	6,310,656	-	-	6,284,394	6,310,656
Food service	-	-	1,586,331	1,508,001	1,586,331	1,508,001
Recreation	-	-	303,779	283,375	303,779	283,375
Total expenses	<u>83,476,876</u>	<u>83,738,630</u>	<u>1,890,110</u>	<u>1,791,376</u>	<u>85,366,986</u>	<u>85,530,006</u>
Changes in net assets	<u>1,576,047</u>	<u>3,914,579</u>	<u>30,052</u>	<u>288,386</u>	<u>1,606,099</u>	<u>4,202,965</u>
Net assets (deficit) at beginning of year	<u>24,681,767</u>	<u>20,767,188</u>	<u>112,070</u>	<u>(176,316)</u>	<u>24,793,837</u>	<u>20,590,872</u>
Net assets at end of year	<u>\$ 26,257,814</u>	<u>\$ 24,681,767</u>	<u>\$ 142,122</u>	<u>\$ 112,070</u>	<u>\$ 26,399,936</u>	<u>\$ 24,793,837</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,576,047. Total governmental expenses of \$83,476,876 were offset by program revenues of \$14,397,282 and general revenues of \$70,655,641. Program revenues supported 17.25% of the total governmental expenses. Revenues of the governmental activities decreased \$2,600,286. The most significant decreases were in the areas of operating grants and contributions and grants and entitlements. Operating grants and contributions decreased \$3,552,018 due to a decrease in Title II-D funding, IDEA Part B fund and Ed jobs funding. Also, the District received State fiscal stabilization funds in fiscal year 2011 that were no longer available in fiscal year 2012. Unrestricted grants and entitlements decreased \$1,140,094 due to lower tangible personal property tax reimbursements and electric deregulation reimbursements received from the State. Charges for services increased \$982,117 due to an increase in vocational tuition receipts and an increase in services provided to other entities. Property taxes increased \$1,147,635 due to a full year of collections on a recently passed operating levy.

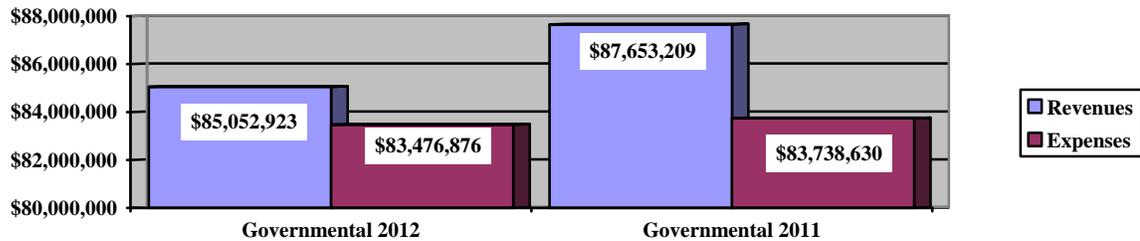
**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Expenses of the governmental activities decreased \$261,754. The most significant decrease was in the area of special instruction which decreased \$1,361,992. This decrease was primarily the result of the decrease in IDEA Part B funding which primarily services special instruction.

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2012 and 2011.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses:				
Instruction:				
Regular	\$ 30,235,236	\$ 27,344,425	\$ 29,259,061	\$ 25,559,059
Special	12,459,521	7,953,198	13,821,513	8,477,198
Vocational	2,799,524	744,155	2,906,196	1,383,349
Adult/continuing	336,391	(41,252)	291,651	(24,189)
Other	3,439,772	3,439,772	3,450,482	2,749,950

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

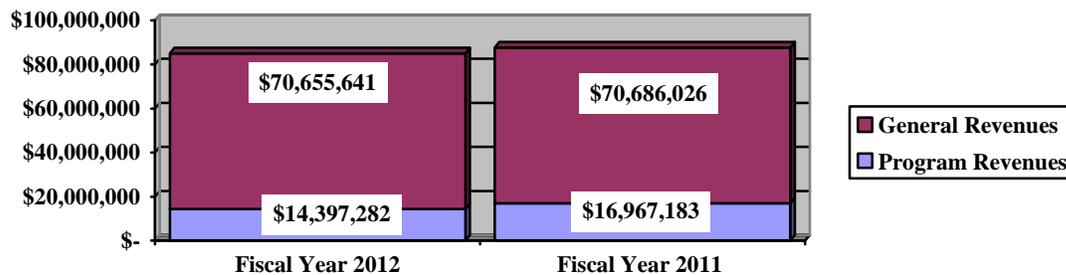
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Support services:				
Pupil	4,372,941	3,736,018	4,590,126	3,746,715
Instructional staff	4,688,599	3,400,980	4,621,838	3,169,025
Board of education	84,593	84,593	97,469	97,469
Administration	3,550,527	3,407,087	3,396,433	3,286,306
Fiscal	1,670,738	1,657,680	1,714,244	1,708,507
Business	857,951	857,951	1,004,529	642,685
Operations and maintenance	7,879,818	7,540,930	7,585,509	7,280,797
Pupil transportation	56,159	(117,923)	79,336	(98,473)
Central	457,832	439,832	447,441	239,392
Operation of non-instructional services	2,882,454	1,566,829	2,886,651	1,593,302
Extracurricular activities	1,420,426	780,925	1,275,495	649,699
Interest and fiscal charges	6,284,394	6,284,394	6,310,656	6,310,656
Total expenses	\$ 83,476,876	\$ 69,079,594	\$ 83,738,630	\$ 66,771,447

The dependence upon tax revenues and unrestricted grants and entitlements during fiscal year 2012 for governmental activities is apparent, as 80.05% of 2012 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 82.75% in 2012. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenues for fiscal years 2012 and 2011.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include recreation and the food service operation. These programs had revenues of \$1,920,162 and expenses of \$1,890,110 for fiscal year 2012. The food service operations had expenses of \$1,586,331 and revenues of \$1,588,726. The recreation fund has \$303,779 in expenses and revenues of \$331,436. This resulted in an increase to net assets for the fiscal year of \$30,052. These funds intended to be self-supporting through user fees and charges. Management assesses their performance to ensure that they are run efficiently.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$25,315,882 which is higher than last year's total of \$22,221,419. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	<u>Fund Balance</u> <u>June 30, 2012</u>	<u>Fund Balance</u> <u>June 30, 2011</u>	<u>Increase</u>
General	\$ 15,938,356	\$ 13,757,211	\$ 2,181,145
Debt Service	6,242,757	5,955,725	287,032
Other Governmental	<u>3,134,769</u>	<u>2,508,483</u>	<u>626,286</u>
Total	<u>\$ 25,315,882</u>	<u>\$ 22,221,419</u>	<u>\$ 3,094,463</u>

General Fund

The District's general fund balance increased \$2,181,145. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 38,658,436	\$ 37,585,043	\$ 1,073,393	2.86 %
Earnings on investments	143,893	169,073	(25,180)	(14.89) %
Intergovernmental	24,274,232	25,273,442	(999,210)	(3.95) %
Other revenues	<u>5,379,639</u>	<u>4,409,040</u>	<u>970,599</u>	22.01 %
Total	<u>\$ 68,456,200</u>	<u>\$ 67,436,598</u>	<u>\$ 1,019,602</u>	1.51 %

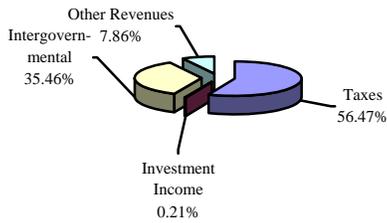
Overall revenues of the general fund increased \$1,019,602 or 1.51%. Tax revenue increased \$1,073,393 or 2.86% from the prior year. This increase can be attributed to a new 6.9 mill tax levy that was passed in May of 2010 and began collections during calendar year 2011. Fiscal year 2012 was the first full year of collections on this levy. Other revenues increased \$970,599 or 22.01% due primarily to an increase in vocational tuition. Intergovernmental revenues decreased \$999,210 or 3.95%. This decrease is due to lower tangible personal property tax reimbursements and electric deregulation reimbursements from the State. Earnings on investments decreased \$25,180 due to a decrease in interest rates earned on investments compared to fiscal year 2011.

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

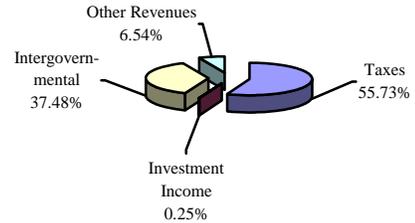
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The graphs below detail general fund revenues from fiscal year 2012 and 2011.

Revenues – Fiscal Year 2012



Revenues – Fiscal Year 2011



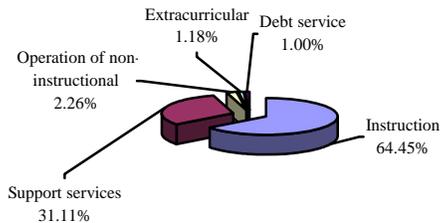
The table that follows assists in illustrating the expenditures of the general fund.

	2012 <u>Amount</u>	2011 <u>Amount</u>	<u>Change</u>	<u>Percentage Change</u>
<u>Expenditures</u>				
Instruction	\$ 43,083,538	\$ 41,803,573	\$ 1,279,965	3.06 %
Support services	20,798,369	20,907,064	(108,695)	(0.52) %
Operation of non-instructional services	1,514,179	1,529,938	(15,759)	(1.03) %
Extracurricular activities	790,728	792,783	(2,055)	(0.26) %
Facilities acquisition and construction	-	1,243	(1,243)	100.00 %
Debt service	668,241	437,996	230,245	52.57 %
Total	<u>\$ 66,855,055</u>	<u>\$ 65,472,597</u>	<u>\$ 1,382,458</u>	2.11 %

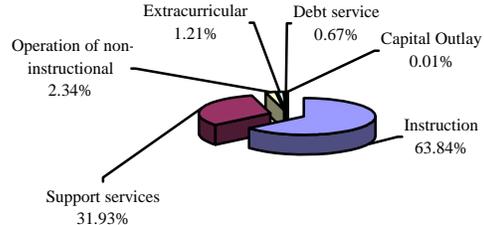
Expenditures of the general fund increased \$1,382,458 or 2.11%. Instruction expenditures increased \$1,279,965 due to moving some of the expenditures to a nonmajor special revenue fund related to the state fiscal stabilization.

The graphs below detail general fund expenditures for fiscal year 2012 and 2011.

Expenditures – Fiscal Year 2012



Expenditures – Fiscal Year 2011



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Debt Service Fund

The debt service fund had \$9,185,120 in revenues and \$8,898,088 in expenditures. The debt service fund's fund balance increased \$287,032 from \$5,955,725 to \$6,242,757. The increase in fund balance is due to revenues exceeding the scheduled principal and interest payments on general obligation bonds during fiscal year 2012.

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 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, final budgeted revenues and other financing sources were \$68,458,938, which was decreased from the original budgeted revenues and other financing sources estimate of \$70,140,688. Actual revenues and other financing sources for fiscal year 2012 was \$70,368,585. This represents a \$1,909,647 increase over final budgeted revenues.

General fund original appropriations (expenditures and other financing uses) of \$70,963,660 were decreased to \$70,833,007 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$69,458,884, which was \$1,374,123 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, the District had \$132,464,885 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Of this total, \$132,417,181 was reported in governmental activities and \$47,704 was reported in business-type activities. The following table shows June 30, 2012 balances compared to June 30, 2011.

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

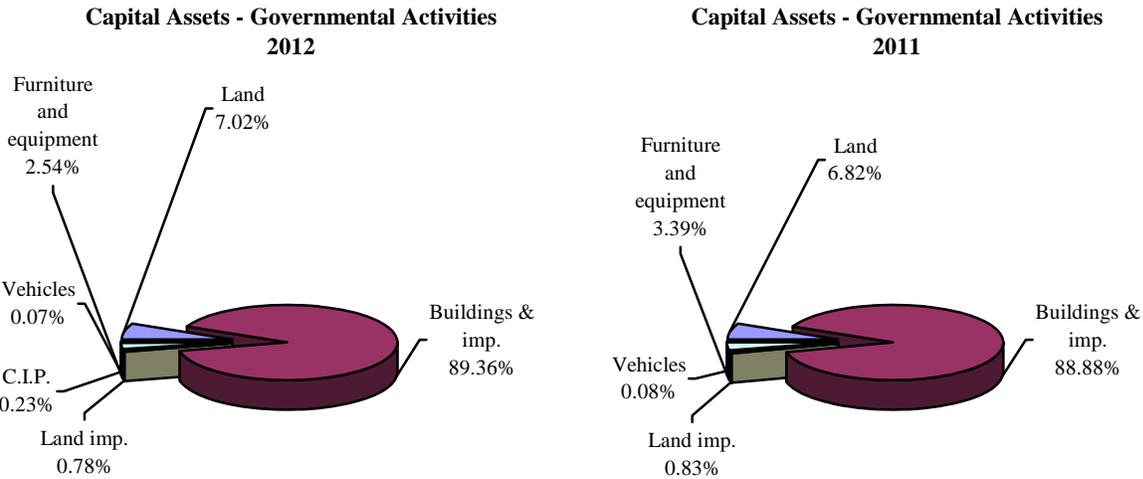
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 9,294,255	\$ 9,294,255	\$ -	\$ -	\$ 9,294,255	\$ 9,294,255
Land improvements	1,034,421	1,131,246	-	-	1,034,421	1,131,246
Building and improvements	118,325,732	121,149,140	-	-	118,325,732	121,149,140
Furniture and equipment	3,357,181	4,618,734	14,381	17,747	3,371,562	4,636,481
Vehicles	97,647	111,331	33,323	38,516	130,970	149,847
Construction in progress	<u>307,945</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>307,945</u>	<u>-</u>
Total	<u>\$ 132,417,181</u>	<u>\$ 136,304,706</u>	<u>\$ 47,704</u>	<u>\$ 56,263</u>	<u>\$ 132,464,885</u>	<u>\$ 136,360,969</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The overall decrease in governmental capital assets of \$3,887,525 is due to depreciation expense of \$4,241,114 exceeding capital outlays of \$353,589 for fiscal year 2012.

The following graphs show the breakdown of governmental activities capital assets by category for 2012 and 2011



See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2012 the District had \$123,410,368 in general obligation bonds and capital leases outstanding. Of this total, \$4,324,594 is due within one year and \$119,085,774 is due in more than one year. The following table summarizes the bonds and capital leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2012	Governmental Activities 2011
General obligation bonds	\$ 122,243,306	\$ 124,815,058
Capital leases	1,167,062	1,755,818
Total	<u>\$ 123,410,368</u>	<u>\$ 126,570,876</u>

The District maintains an A-1 bond rating.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Current Financial Related Activities

The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves, and to minimize the levy millage amounts needed periodically from the community's citizens. As the balance sheet on page 20 shows, the general fund's unrestricted cash balance was \$16,813,918 at June 30, 2012. Fiscal year-end general fund unrestricted cash balances were \$15,603,692, \$13,196,739, \$16,019,490, \$20,060,960, \$22,942,386, \$21,859,407, \$22,002,572, \$18,040,883, \$13,226,206 and \$10,049,111 at June 30 in fiscal years 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003 and 2002, respectively. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance, pass four consecutive operating levies in 1995, 1999, 2002, and 2010 at minimum millage amounts possible, and continue a quality, comprehensive educational program.

The Board's five-year projections indicated that the natural budget cycle needs would require additional operating income beginning in fiscal year 2011. In May 2010, the Board submitted, and the electors of the District approved (by a vote of 60.62% to 39.38%) a 6.9-mill ad valorem property tax for the purpose of current expenses for a continuing period of time. That levy generates approximately \$6.2 million annually. By monitoring its five-year forecast, the Board was able to request voter approval early in the forecast cycle to lower the millage amount needed and not face significant reductions in educational programming. It is anticipated that additional operating funds from local taxes will be necessary again in fiscal year 2014. Since 2005, the Board has made numerous reductions in operating expenses to manage the budget and deal with revenue losses from reduced state funding, property valuations, and investment earnings.

Several significant legislative and judicial actions have occurred that will have a major impact on our District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." The State has not yet developed a school-funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. The biennial budget approved by the State for Fiscal Years 2012 and 2013 did not prove helpful to the funding situation for the District. The District is projected to lose approximately \$6.3 million in State funding, when compared to fiscal year 2011 revenues, during this biennial budget period from reduced foundation funding, phase-out of tangible personal property tax replacement dollars, and elimination of electricity deregulation offset payments. This \$6.3 million loss will be fully realized during fiscal year 2013, and continue in fiscal years. Ironically, this amount is virtually identical to the revenues generated from the passage of the 6.9 mill operating levy in May 2010. Additionally, the District has been able to streamline some of its operations, thus cutting expenses, due to commencement of its new school facilities program.

Declining enrollment over the past ten years is a trend that has received, and will continue to receive, the attention of the Board and Administration. Enrollment in the past two years has leveled, perhaps due to implementation of extended-day kindergarten, economic conditions, or other factors. Reduced student counts lead to staffing cuts, excess building capacity, and less state funding. Each of these factors negatively impacts the operations of the District.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Another challenge facing the District is the need to complete the final construction phase to update its facilities to streamline operations and to enhance learning space design for students. The Board empowered the "Designing Our Schools for the Next 50 Years" Committee to develop a plan for school building replacement/renovation, grade configuration, and building numbers and locations. The Board has worked with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan and project agreement, both of which are necessary in order to access State funds to assist with costs related to the plan. OSFC funding will comprise approximately 31% of the approved project costs; thus, it is important to capture this revenue source to relieve some of the financial burden from local taxpayers. The Lakewood community passed a \$93.6 million bond issue in March 2005, to begin the first construction phase of the facilities plan. Community and staff committees designed two new elementary schools and two new middle schools. The Lakewood community also passed a \$30.1 million bond issue on May 8, 2007. The 1.9 mill levy is for a term of 27 years commenced in 2007 (tax collections began in 2008). This bond issue was passed to renovate two middle schools to become elementary schools, and to renovate the western portion of Lakewood High School. When the entire project is completed, the District will have reduced its operations from 14 school buildings (10 elementary schools, 3 middle schools, and 1 high school) to 9 school buildings (6 elementary schools, 2 middle schools and 1 high school). The operational efficiencies created by this realignment of facilities will lessen millage amounts that will be needed for general fund operations in years after the facilities plan is completed.

The District has committed itself to educational and financial excellence for many years. This is exemplified by the unqualified audit opinions that have been received by the Auditor of State. Each challenge identified in this section is viewed simultaneously as an opportunity for the District to foray down paths not previously traveled to continue its commitment to excellence. The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support the educational program.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Tim Penton, Treasurer, Lakewood City School District, 1470 Warren Road, Lakewood, Ohio 44107.

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Lakewood City Academy
Assets:				
Equity in pooled cash and investments	\$ 28,858,926	\$ 411,982	\$ 29,270,908	\$ 469,856
Receivables:				
Property taxes	49,501,439	-	49,501,439	-
Payment in lieu of taxes	57,918	-	57,918	-
Accounts	2,808	-	2,808	-
Accrued interest	29,977	-	29,977	-
Intergovernmental	1,506,538	-	1,506,538	12,124
Materials and supplies inventory	-	5,656	5,656	-
Unamortized bond issuance costs	933,628	-	933,628	-
Capital assets:				
Land and construction in progress	9,602,200	-	9,602,200	-
Depreciable capital assets, net	122,814,981	47,704	122,862,685	26,903
Capital assets, net	132,417,181	47,704	132,464,885	26,903
Total assets	213,308,415	465,342	213,773,757	508,883
Liabilities:				
Accounts payable	455,146	9,262	464,408	2,442
Contracts payable	307,945	-	307,945	-
Accrued wages and benefits	7,480,478	123,722	7,604,200	-
Pension obligation payable	1,492,820	84,486	1,577,306	-
Intergovernmental payable	420,165	2,169	422,334	2,870
Unearned revenue	38,670,300	-	38,670,300	-
Accrued interest payable	527,363	-	527,363	-
Claims payable	35,300	-	35,300	-
Long-term liabilities:				
Due within one year	6,592,777	113	6,592,890	-
Due in more than one year	131,068,307	103,468	131,171,775	-
Total liabilities	187,050,601	323,220	187,373,821	5,312
Net Assets:				
Invested in capital assets, net of related debt	21,697,856	47,704	21,745,560	26,903
Restricted for:				
Capital projects	1,396,542	-	1,396,542	-
Debt service	6,539,111	-	6,539,111	-
Locally funded programs	27,823	-	27,823	204
State funded programs	218,868	-	218,868	-
Federally funded programs	431,401	-	431,401	12,159
Public school support	-	-	-	140
Student activities	296,596	-	296,596	-
Other purposes	-	-	-	249
Unrestricted (deficit)	(4,350,383)	94,418	(4,255,965)	463,916
Total net assets	\$ 26,257,814	\$ 142,122	\$ 26,399,936	\$ 503,571

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular	\$ 30,235,236	\$ 2,654,830	\$ 235,981
Special	12,459,521	-	4,506,323
Vocational	2,799,524	1,584,492	470,877
Adult/continuing.	336,391	293,513	84,130
Other	3,439,772	-	-
Support services:			
Pupil.	4,372,941	1,917	635,006
Instructional staff	4,688,599	154,144	1,133,475
Board of education	84,593	-	-
Administration.	3,550,527	17,383	126,057
Fiscal.	1,670,738	3,879	9,179
Business.	857,951	-	-
Operations and maintenance	7,879,818	338,888	-
Pupil transportation.	56,159	1,264	172,818
Central	457,832	-	18,000
Operation of non-instructional services:			
Other non-instructional services	2,882,454	204,083	1,111,542
Extracurricular activities.	1,420,426	612,966	26,535
Interest and fiscal charges	6,284,394	-	-
Total governmental activities	<u>83,476,876</u>	<u>5,867,359</u>	<u>8,529,923</u>
Business-type activities:			
Food service.	1,586,331	576,756	1,011,003
Recreation.	303,779	331,436	-
Total business-type activities	<u>1,890,110</u>	<u>908,192</u>	<u>1,011,003</u>
Totals	<u>\$ 85,366,986</u>	<u>\$ 6,775,551</u>	<u>\$ 9,540,926</u>
Component Unit:			
Lakewood City Academy	<u>\$ 1,084,883</u>	<u>\$ 395</u>	<u>\$ 1,030,744</u>

General Revenues:

Property taxes levied for:

 General purposes

 Debt service.

Grants and entitlements not restricted to specific programs

Payment in lieu of taxes

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

Governmental Activities	Primary Government		Total	Component Unit
	Business-Type Activities			Lakewood City Academy
\$ (27,344,425)	\$ -	\$ (27,344,425)	\$ -	
(7,953,198)	-	(7,953,198)	-	
(744,155)	-	(744,155)	-	
41,252	-	41,252	-	
(3,439,772)	-	(3,439,772)	-	
(3,736,018)	-	(3,736,018)	-	
(3,400,980)	-	(3,400,980)	-	
(84,593)	-	(84,593)	-	
(3,407,087)	-	(3,407,087)	-	
(1,657,680)	-	(1,657,680)	-	
(857,951)	-	(857,951)	-	
(7,540,930)	-	(7,540,930)	-	
117,923	-	117,923	-	
(439,832)	-	(439,832)	-	
(1,566,829)	-	(1,566,829)	-	
(780,925)	-	(780,925)	-	
(6,284,394)	-	(6,284,394)	-	
(69,079,594)	-	(69,079,594)	-	
-	1,428	1,428	-	
-	27,657	27,657	-	
-	29,085	29,085	-	
(69,079,594)	29,085	(69,050,509)	-	
-	-	-	(53,744)	
39,129,759	-	39,129,759	-	
8,108,012	-	8,108,012	-	
23,165,464	-	23,165,464	-	
38,454	-	38,454	-	
135,170	967	136,137	754	
78,782	-	78,782	4,154	
70,655,641	967	70,656,608	4,908	
1,576,047	30,052	1,606,099	(48,836)	
24,681,767	112,070	24,793,837	552,407	
\$ 26,257,814	\$ 142,122	\$ 26,399,936	\$ 503,571	

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments.	\$ 16,813,918	\$ 5,036,377	\$ 5,705,467	\$ 27,555,762
Receivables:				
Property taxes.	40,789,083	8,712,356	-	49,501,439
Payment in lieu of taxes	57,918	-	-	57,918
Accounts	2,808	-	-	2,808
Accrued interest	29,977	-	-	29,977
Interfund loans	2,578,100	-	-	2,578,100
Intergovernmental.	350,608	-	1,155,930	1,506,538
Total assets	<u>\$ 60,622,412</u>	<u>\$ 13,748,733</u>	<u>\$ 6,861,397</u>	<u>\$ 81,232,542</u>
Liabilities:				
Accounts payable	\$ 310,995	\$ -	\$ 144,151	\$ 455,146
Contracts payable.	-	-	307,945	307,945
Accrued wages and benefits.	7,030,534	-	449,944	7,480,478
Compensated absences payable	19,516	-	-	19,516
Interfund loans payable.	-	-	2,578,100	2,578,100
Intergovernmental payable	114,714	-	6,000	120,714
Pension obligation payable	1,317,289	-	175,531	1,492,820
Unearned revenue.	31,988,041	6,682,259	-	38,670,300
Deferred revenue	3,902,967	823,717	64,957	4,791,641
Total liabilities.	<u>44,684,056</u>	<u>7,505,976</u>	<u>3,726,628</u>	<u>55,916,660</u>
Fund Balances:				
Restricted:				
Debt service	-	6,242,757	-	6,242,757
Capital improvements	-	-	1,396,542	1,396,542
Adult education	-	-	10,263	10,263
Non-public schools	-	-	165,148	165,148
Public school preschool	-	-	22,081	22,081
Targeted academic assistance	-	-	433,413	433,413
Vocational education.	-	-	1,883	1,883
Other purposes.	-	-	87,143	87,143
Extracurricular.	-	-	296,596	296,596
Committed:				
Capital improvements	-	-	662,767	662,767
Other purposes.	-	-	105,156	105,156
Assigned:				
Student instruction	94,987	-	-	94,987
Student and staff support.	533,018	-	-	533,018
Operation on non-instructional	4,010	-	-	4,010
Subsequent year appropriations	2,500,525	-	-	2,500,525
Other purposes.	77,297	-	-	77,297
Unassigned (deficit)	12,728,519	-	(46,223)	12,682,296
Total fund balances	<u>15,938,356</u>	<u>6,242,757</u>	<u>3,134,769</u>	<u>25,315,882</u>
Total liabilities and fund balances	<u>\$ 60,622,412</u>	<u>\$ 13,748,733</u>	<u>\$ 6,861,397</u>	<u>\$ 81,232,542</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$	25,315,882
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			132,417,181
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	4,417,789	
Accounts receivable		2,403	
Accrued interest receivable		81,053	
Intergovernmental receivable		290,396	
Total		4,791,641	4,791,641
An internal service fund is used by management to charge the costs of workers compensation to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			968,413
Unamortized bond issuance costs are not recognized in the funds.			933,628
Unamortized premiums on bond issuances are not recognized in the funds.			(5,054,294)
Unamortized deferred amounts on refundings are not recognized in the funds.			2,253,298
On the statement of net assets, interest is accrued on outstanding bonds whereas in governmental funds, interest is reported when due.			(527,363)
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		(122,243,306)	
Capital lease obligations		(1,167,062)	
Compensated absences		(5,626,741)	
Retirement incentives		(5,803,463)	
Total		(134,840,572)	(134,840,572)
Net assets of governmental activities		\$	26,257,814

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 38,658,436	\$ 8,084,427	\$ -	\$ 46,742,863
Payment in lieu of taxes	38,454	-	-	38,454
Tuition	3,014,644	-	-	3,014,644
Earnings on investments	143,893	-	5,801	149,694
Extracurricular	497,628	-	563,311	1,060,939
Classroom materials and fees	114,308	-	77,754	192,062
Rental income	278,750	-	60,138	338,888
Contributions and donations	50,159	-	37,606	87,765
Contract services	1,209,631	-	51,193	1,260,824
Other local revenues	176,065	-	14,485	190,550
Intergovernmental - intermediate	-	-	2,650	2,650
Intergovernmental - state	23,988,681	1,100,693	1,237,460	26,326,834
Intergovernmental - federal	285,551	-	5,581,081	5,866,632
Total revenues	<u>68,456,200</u>	<u>9,185,120</u>	<u>7,631,479</u>	<u>85,272,799</u>
Expenditures:				
Current:				
Instruction:				
Regular	26,614,856	-	1,163,580	27,778,436
Special	10,259,165	-	2,086,383	12,345,548
Vocational	2,531,669	-	174,260	2,705,929
Adult/continuing	260,018	-	78,697	338,715
Other	3,417,830	-	-	3,417,830
Support services:				
Pupil	3,870,689	-	511,317	4,382,006
Instructional staff	3,355,474	-	1,142,708	4,498,182
Board of education	81,994	-	-	81,994
Administration	3,367,696	-	116,701	3,484,397
Fiscal	1,701,743	-	12,240	1,713,983
Business	857,203	-	-	857,203
Operations and maintenance	7,056,076	-	307,945	7,364,021
Pupil transportation	74,006	-	-	74,006
Central	433,488	-	18,697	452,185
Operation of non-instructional services:				
Other non-instructional services	1,514,179	-	1,071,045	2,585,224
Extracurricular activities	790,728	-	585,856	1,376,584
Facilities acquisition and construction	-	-	55,764	55,764
Debt service:				
Principal retirement	588,756	3,715,000	-	4,303,756
Interest and fiscal charges	79,485	5,183,088	-	5,262,573
Total expenditures	<u>66,855,055</u>	<u>8,898,088</u>	<u>7,325,193</u>	<u>83,078,336</u>
Excess of revenues over expenditures	<u>1,601,145</u>	<u>287,032</u>	<u>306,286</u>	<u>2,194,463</u>
Other financing sources (uses):				
Transfers in	600,000	-	320,000	920,000
Transfers (out)	(20,000)	-	-	(20,000)
Total other financing sources (uses)	<u>580,000</u>	<u>-</u>	<u>320,000</u>	<u>900,000</u>
Net change in fund balances	2,181,145	287,032	626,286	3,094,463
Fund balances at beginning of year	<u>13,757,211</u>	<u>5,955,725</u>	<u>2,508,483</u>	<u>22,221,419</u>
Fund balances at end of year	<u>\$ 15,938,356</u>	<u>\$ 6,242,757</u>	<u>\$ 3,134,769</u>	<u>\$ 25,315,882</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ 3,094,463

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$ 353,589	
Current year depreciation	(4,241,114)	
Total	(3,887,525)	(3,887,525)

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

Property taxes	494,908	
Tuition	(52,038)	
Earnings on investments	(13,594)	
Intergovernmental	(652,354)	
Total	(223,078)	(223,078)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were:

Bonds	3,715,000	
Capital leases	588,756	
Total	4,303,756	4,303,756

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

Decrease in accrued interest payable	495	
Accreted interest on capital appreciation bonds	(1,143,248)	
Amortization of bond issuance costs	(75,564)	
Amortization of bond premiums	334,527	
Amortization of deferred charges	(138,031)	
Total	(1,021,821)	(1,021,821)

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

(72,747)

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

(617,001)

Change in net assets of governmental activities **\$ 1,576,047**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 38,332,173	\$ 38,918,939	\$ 38,918,940	\$ 1
Payment in lieu of taxes	38,454	38,454	38,454	-
Tuition	2,333,728	2,973,620	2,982,680	9,060
Earnings on investments	185,702	106,825	109,317	2,492
Extracurricular	94,707	75,606	75,606	-
Classroom materials and fees	120,941	114,059	114,308	249
Rental income	280,956	274,553	278,750	4,197
Contract services	907,314	956,272	956,680	408
Other local revenues	133,000	126,376	127,616	1,240
Intergovernmental - state	25,516,254	23,988,681	23,988,681	-
Intergovernmental - federal	305,459	285,551	285,551	-
Total revenues	68,248,688	67,858,936	67,876,583	17,647
Expenditures:				
Current:				
Instruction:				
Regular	28,479,136	27,365,159	26,982,485	382,674
Special	9,622,135	10,416,888	10,374,607	42,281
Vocational	2,926,633	2,574,128	2,496,064	78,064
Adult/continuing	169,860	118,559	115,356	3,203
Other	3,404,440	3,727,256	3,692,108	35,148
Support services:				
Pupil	4,039,352	3,932,362	3,923,860	8,502
Instructional staff	3,490,821	3,393,623	3,380,005	13,618
Board of education	125,141	123,100	81,560	41,540
Administration	3,388,471	3,376,267	3,370,682	5,585
Fiscal	1,820,115	1,760,516	1,719,678	40,838
Business	929,136	964,413	887,657	76,756
Operations and maintenance	8,725,957	7,693,348	7,192,434	500,914
Pupil transportation	107,889	90,246	87,845	2,401
Central	454,315	455,027	434,431	20,596
Operation of non-instructional services:				
Other non-instructional services	1,393,363	1,374,563	1,314,971	59,592
Extracurricular activities	916,896	852,552	790,141	62,411
Total expenditures	69,993,660	68,218,007	66,843,884	1,374,123
Excess (deficiency) of revenues over (under) expenditures	(1,744,972)	(359,071)	1,032,699	1,391,770
Other financing sources (uses):				
Transfers in	-	600,000	600,000	-
Transfers (out)	(20,000)	(20,000)	(20,000)	-
Advances in	1,892,000	-	1,892,000	1,892,000
Advances (out)	(950,000)	(2,595,000)	(2,595,000)	-
Sale of capital assets	-	2	2	-
Total other financing sources (uses)	922,000	(2,014,998)	(122,998)	1,892,000
Net change in fund balance	(822,972)	(2,374,069)	909,701	3,283,770
Fund balance at beginning of year	14,612,837	14,612,837	14,612,837	-
Prior year encumbrances appropriated	429,376	429,376	429,376	-
Fund balance at end of year	\$ 14,219,241	\$ 12,668,144	\$ 15,951,914	\$ 3,283,770

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Total Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Assets:		
Current assets:		
Equity in pooled cash and investments.	\$ 411,982	\$ 1,303,164
Materials and supplies inventory.	5,656	-
Total current assets	417,638	1,303,164
Noncurrent assets:		
Depreciable capital assets, net	47,704	-
Total assets.	465,342	1,303,164
Liabilities:		
Current liabilities:		
Accounts payable.	9,262	-
Accrued wages and benefits	123,722	-
Compensated absences.	113	-
Pension obligation payable.	84,486	-
Intergovernmental payable	2,169	299,451
Claims payable	-	35,300
Total current liabilities	219,752	334,751
Long-term liabilities:		
Compensated absences payable.	103,468	-
Total long-term liabilities	103,468	-
Total liabilities	323,220	334,751
Net assets:		
Invested in capital assets	47,704	-
Unrestricted.	94,418	968,413
Total net assets	\$ 142,122	\$ 968,413

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Total Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Operating revenues:		
Sales/charges for services	\$ 908,192	\$ 615,164
Total operating revenues	908,192	615,164
Operating expenses:		
Personal services	1,013,090	-
Purchased services	13,870	4,270
Materials and supplies	822,990	-
Other	31,601	-
Claims	-	327,895
Depreciation	8,559	-
Total operating expenses	1,890,110	332,165
Operating income (loss)	(981,918)	282,999
Nonoperating revenues:		
Grants and subsidies	992,710	-
Interest revenue	967	-
Federal donated commodities	18,293	-
Total nonoperating revenues	1,011,970	-
Income before transfers	30,052	282,999
Transfer out	-	(900,000)
Change in net assets	30,052	(617,001)
Net assets at beginning of year	112,070	1,585,414
Net assets at end of year	\$ 142,122	\$ 968,413

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Total Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from sales/charges for services	\$ 908,192	\$ 615,164
Cash payments for personal services	(997,750)	-
Cash payments for contractual services	(13,719)	(4,270)
Cash payments for materials and supplies	(804,561)	-
Cash payments for claims	-	(190,063)
Cash payments for other expenses	(26,750)	-
	(934,588)	420,831
Net cash provided by (used in) operating activities		
	(934,588)	420,831
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies	992,710	-
Cash used in transfers out	-	(900,000)
	992,710	(900,000)
Net cash provided by (used in) noncapital financing activities		
	992,710	(900,000)
Cash flows from investing activities:		
Interest received	967	-
	967	-
Net cash provided by investing activities		
	967	-
Net increase (decrease) in cash and investments	59,089	(479,169)
Cash and investments at beginning of year	352,893	1,782,333
Cash and investments at end of year	\$ 411,982	\$ 1,303,164
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (981,918)	\$ 282,999
Adjustments:		
Depreciation	8,559	-
Federal donated commodities	18,293	-
Changes in assets and liabilities:		
Decrease in materials and supplies inventory	423	-
Increase in accounts payable	3,190	-
Increase in accrued wages and benefits	16,884	-
Increase in intergovernmental payable	870	299,451
Increase in compensated absences payable	6,708	-
(Decrease) in pension obligation payable	(7,597)	-
(Decrease) in claims payable	-	(161,619)
	(934,588)	420,831
Net cash provided by (used in) operating activities		
	\$ (934,588)	\$ 420,831

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and investments	\$ 29,821	\$ 130,924
Total assets.	<u>29,821</u>	<u>\$ 130,924</u>
Liabilities:		
Accounts payable.	-	\$ 380
Intergovernmental payable	-	13,798
Due to students.	-	<u>116,746</u>
Total liabilities	<u>-</u>	<u>\$ 130,924</u>
Net assets:		
Held in trust for scholarships	<u>29,821</u>	
Total net assets	<u>\$ 29,821</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

		<u>Private-Purpose Trust</u>
		<u>Scholarship</u>
Additions:		
Interest	\$	105
Gifts and contributions		1,000
Total additions.		<u>1,105</u>
 Deductions:		
Scholarships awarded		<u>1,000</u>
 Change in net assets.		105
Net assets at beginning of year		<u>29,716</u>
Net assets at end of year.	\$	<u>29,821</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Lakewood City School District (the "District") is located in Cuyahoga County and includes all of the City of Lakewood, Ohio. The District was established in 1854 through the consolidation of existing land areas and school districts. The District serves an area of approximately 5.05 square miles.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms. The District provides educational services as authorized by Ohio statute and/or federal guidelines.

The District ranks as the 53rd largest by enrollment among the 918 public school districts and community schools in the State of Ohio. It currently operates 14 instructional buildings, 1 administrative building and 1 garage. The District employs 514 non-certified and 573 certified full-time and part-time employees to provide services to approximately 5,893 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its business-type activity and to its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply this FASB guidance. The District's significant accounting policies are described below.

A. Reporting Entity

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has one component unit.

The following component unit and other organizations are described due to their relationship to the District.

COMPONENT UNIT

The Lakewood City Academy - The Lakewood City Academy (the "Academy") is a legally separate, conversion community school, served by a Board of Directors. The Academy provides students within the District with curriculum and instruction via distance learning technology. The Board of Directors consists of the Executive Director of TRECA, the Superintendent of Lakewood City School District, the Assistant Superintendent of Lakewood City School District, the Coordinator of Student Services for the Lakewood City School District, the Director of Human Services for the City of Lakewood, the Vice-President of Retail/Chief Savings Officer of the First Federal of Lakewood Savings Bank and the Clinical Supervisor of the City of Lakewood Division of Youth Services. The Lakewood City School District is the sponsoring School District of the Academy under Ohio Revised Code Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Academy, the Academy's purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Directors of the Academy, the Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 1470 Warren Road, Lakewood, OH 44107-3918. See Note 19 for further information on the Academy.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

JOINTLY GOVERNED ORGANIZATIONS

North Coast Council - The District is a member of the North Coast Council (NCC) which was formed when the Lakeshore Northeast Ohio Computer Association and the Lake Erie Educational Computer Association merged during fiscal year 2012. NCC was organized for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among 34 member districts. Each of the governments of these schools supports the NCC based on a per pupil charge. The District contributed \$175,099 to NCC during fiscal year 2012. NCC is governed by a nine member Board of Directors consisting of superintendents from member school districts. Financial information can be obtained by contacting the Treasurer at the Cuyahoga County Board of Education, who serves as fiscal agent, at 5700 West Canal Road, Valley View, Ohio 44125.

Ohio Schools Council - The Ohio Schools Council Association (the "Council") is a jointly governed organization comprised of 157 member districts. The mission of the Council is to identify, plan and provide services to member districts that can be more effectively achieved by cooperative endeavors of member districts than by an individual district operating on its own. Each district supports the Council by paying an annual participation fee. The Council's Board consists of nine superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2012, the District paid \$113,567 to the Council for membership and other services as well as for the natural gas purchasing program. Financial information can be obtained by contacting David Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the natural gas purchase program. This program allows the District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 146 participants in the program including the Lakewood City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

RELATED ORGANIZATION

The Lakewood Public Library - The Lakewood 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 Lakewood City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve 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 Lakewood Public Library at 15425 Detroit Avenue, Lakewood, Ohio 44107.

INSURANCE PURCHASING POOLS

Ohio School Plan

The Ohio School Plan (the "Plan") is a shared liability, property and fleet insurance risk pool which is governed by a board of thirteen school superintendents, business managers and treasurers. Harcum-Schuett, the insurance agency, has one board seat. OSBA, BASA and OASBO executive directors serve as ex-officio members. 450 educational entities are served by the Plan. The Plan's board elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the plan. All Plan revenues are generated from charges for services. For more information, write to the Ohio School Plan, Harcum-Schuett Insurance Agency, Inc., 246 Sycamore Street, Columbus, Ohio 43206.

Suburban Health Consortium

The Suburban Health Consortium (the "Consortium") is a shared health risk pool created on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverages for their employees and the eligible dependents and designated beneficiaries of such employees. The Consortium was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. The Board of Directors shall be the governing body of the Consortium. The Board of Education of each Consortium Member shall appoint its Superintendent or such Superintendent's designee to be its representative of the Board of Directors. The officers of the Board of Directors shall consist of a Chairman, Vice-Chairman and Recording Secretary, who shall be elected at the annual meeting of Board of Directors and serve until the next annual meeting. All of the authority of the Consortium shall be exercised by or under the direction of the Board of Directors. The Board of Directors shall also set all premiums and other amounts to be paid by the Consortium Members, and the Board of Directors shall also have the authority to waive premiums and other payments. All members of the Board of Directors shall serve without compensation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

The Fiscal Agent (Orange City School District) shall be the Board of Education responsible for administering the financial transactions of the Consortium. The Fiscal Agent shall carry out the responsibilities of the Consortium Fund, enter into contracts on behalf of the Consortium as authorized by the Directors and carry out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member and such contributions shall be included in the payments from such District Member to the Fiscal Agent for such benefit program. Contributions are to be submitted by each District Member, to the Fiscal Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due. It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement.

Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least 180 days prior to the effective date of withdrawal. Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months' premiums at the Consortium Member's current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from the Treasurer of the Orange City School District (the Fiscal Agent) 32000 Chagrin Blvd., Pepper Pike, Ohio 44124.

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

GOVERNMENTAL FUNDS

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

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

Debt service fund - The debt service fund is used to account for the accumulation of resources restricted for the payment of general obligation bond and note principal, interest and related costs.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary funds:

Enterprise funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has two enterprise funds to account for food service operations and recreation services. These enterprise funds are considered nonmajor enterprise funds.

Internal service funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's internal service fund accounts for workers' compensation activities.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: 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 private-purpose trust fund accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student managed activities and amounts held and due to other governments.

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each 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. 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds 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.

**LAKWOOD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for services and sales. The principal operating revenues of the District's enterprise funds are sales for food services and charges for services for recreation. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. Operating expenses for the enterprise funds are personnel costs and purchased services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, 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 fiscal year end.

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

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

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

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue on the fund financial statements.

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

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

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

E. Budgets

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 appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2012 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, 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 a basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2012.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2012. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final appropriations for fiscal year 2012.
9. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), nonnegotiable certificates of deposit and commercial paper. Investments in STAR Ohio and commercial paper 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.

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

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$143,893 and includes \$60,382 assigned from other District funds.

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

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

G. Inventory

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

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

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 deductions during the year. The District maintains a capitalization threshold of \$5,000. Donated capital assets are recorded at their fair market values as of the date received. 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. Interest incurred during the construction of capital assets is not capitalized for governmental activities.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	50 - 75 years	N/A
Furniture/equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	8 years

**LAKWOOD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance benefits). A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least 10 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16. The District has also recorded a liability for up to 10 days of accumulated sick leave (paid upon termination) for those employees with at least 5 years of service in the District, to the extent that those employees do not otherwise meet criteria defined above.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee’s retirement/resignation has been incurred by fiscal year end. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

L. Fund Balance

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

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Parochial Schools

Within the District boundaries, Lakewood Catholic Academy and St. Edward High School are operated through the Cleveland Catholic Diocese. Lakewood Lutheran School is also in the District. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic schools by the Treasurer of the District, as directed by the nonpublic schools. The activities of these State monies are reflected by the District in a nonmajor governmental fund for financial reporting purposes.

O. 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 sales for food service and charges for services for recreation and self-insurance programs. Operating expenses are necessary costs that are incurred to provide the good or service that is the primary activity of the fund.

P. Estimates

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

Q. Unamortized Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

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

R. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental funds are eliminated for reporting on the government-wide statement of activities.

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. Interfund services provided and used are not eliminated for reporting on the government-wide statement of activities.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District had neither occurrence.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

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

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Education jobs	\$ 891
IDEA Part B	30,005
Refugee Children School Impact Act	4,762
IDEA Part B Preschool Stimulus	5,961
Improving Teacher Quality	979
Miscellaneous federal grants	3,625

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statute classifies 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 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 accounts, including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**LAKEWOOD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At fiscal year end, the District had \$11,465 in undeposited cash on hand, which is included on the statement of net assets of the District as part of "equity in pooled cash and investments".

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits, including \$4,520,444 in nonnegotiable certificates of deposit, was \$20,014,822. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$13,691,370 of the District's bank balance of \$20,171,836 was exposed to custodial risk as discussed below, while \$6,480,466 was covered by the FDIC.

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CUYAHOGA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Commercial paper	\$ 8,993,875	\$ 8,993,875
STAR Ohio	<u>411,491</u>	<u>411,491</u>
Total	<u>\$ 9,405,366</u>	<u>\$ 9,405,366</u>

The weighted average maturity of investments is 0.11 years.

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

Credit Risk: The District's investment in commercial paper (UBS) was rated A-1 and P-1 by Standard & Poor's and Moody's Investor Services, respectively. The District's investment in commercial paper (GE Capital) was rated A-1+ and P-1 by Standard and Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The commercial paper is exposed to custodial credit risk in that it is 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Commercial paper	\$ 8,993,875	95.62
STAR Ohio	<u>411,491</u>	<u>4.38</u>
Total	<u>\$ 9,405,366</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 20,014,822
Investments	9,405,366
Cash on hand	<u>11,465</u>
Total	<u>\$ 29,431,653</u>
<u>Cash and investments per financial statements</u>	
Governmental activities	\$ 28,858,926
Business-type activities	411,982
Private-purpose trust fund	29,821
Agency funds	<u>130,924</u>
Total	<u>\$ 29,431,653</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund loans receivable/payable consisted of the following at June 30, 2012, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 2,578,100</u>

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

Interfund balances between governmental funds are eliminated on the government-wide statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
<u>Transfers from general fund to:</u>	
Nonmajor governmental fund	\$ 20,000
<u>Transfers from the internal service fund to:</u>	
General fund	600,000
Nonmajor governmental fund	300,000
Total	\$ 920,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers from the internal service fund to the general fund and the permanent improvement fund (a nonmajor governmental fund) was to transfer money out of the internal service fund that has been over funded in previous years.

Interfund transfers between governmental funds are eliminated on the government-wide statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2012 (other than public utility property) generally represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010 on the value as of December 31, 2010. Amounts paid by multi-county taxpayers were due September 20, 2011. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2011, with the remainder payable by September 20, 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$5,262,809 in the general fund and \$1,206,170 in the debt service fund. This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$5,519,765 in the general fund and \$1,414,311 in the debt service fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 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 unearned revenue.

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

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

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 894,509,380	98.63	\$ 857,165,590	98.53
Public utility personal	<u>12,400,630</u>	<u>1.37</u>	<u>12,758,240</u>	<u>1.47</u>
Total	<u>\$ 906,910,010</u>	<u>100.00</u>	<u>\$ 869,923,830</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation				
Operations	\$104.83		\$104.83	
Debt service	10.57		10.57	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of property taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Property taxes - current and delinquent	\$ 49,501,439
Payment in lieu of taxes	57,918
Accounts	2,808
Intergovernmental	1,506,538
Accrued interest	<u>29,977</u>
Total receivables	<u>\$ 51,098,680</u>

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

NOTE 8 - CAPITAL ASSETS

	Balance <u>06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/12</u>
Capital assets, not being depreciated:				
Land	\$ 9,294,255	\$ -	\$ -	\$ 9,294,255
Construction in progress	<u>-</u>	<u>307,945</u>	<u>-</u>	<u>307,945</u>
Total capital assets, not being depreciated	<u>9,294,255</u>	<u>307,945</u>	<u>-</u>	<u>9,602,200</u>
Capital assets, being depreciated:				
Land improvements	4,018,461	-	-	4,018,461
Building/improvements	149,573,412	-	-	149,573,412
Furniture/equipment	11,229,446	13,475	-	11,242,921
Vehicles	<u>1,349,398</u>	<u>32,169</u>	<u>-</u>	<u>1,381,567</u>
Total capital assets, being depreciated	<u>166,170,717</u>	<u>45,644</u>	<u>-</u>	<u>166,216,361</u>
Less: accumulated depreciation				
Land improvements	(2,887,215)	(96,825)	-	(2,984,040)
Building/improvements	(28,424,272)	(2,823,408)	-	(31,247,680)
Furniture/equipment	(6,610,712)	(1,275,028)	-	(7,885,740)
Vehicles	<u>(1,238,067)</u>	<u>(45,853)</u>	<u>-</u>	<u>(1,283,920)</u>
Total accumulated depreciation	<u>(39,160,266)</u>	<u>(4,241,114)</u>	<u>-</u>	<u>(43,401,380)</u>
Governmental activities capital assets, net	<u>\$ 136,304,706</u>	<u>\$ (3,887,525)</u>	<u>\$ -</u>	<u>\$ 132,417,181</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 3,041,609
Special	235,991
Vocational	185,895
Support services:	
Pupil	14,030
Instructional staff	227,064
Board of education	2,771
Administration	78,186
Business	1,346
Operations and maintenance of plant	68,795
Pupil transportation	14,426
Extracurricular	45,660
Operation of non-instructional services	<u>325,341</u>
Total depreciation expense	<u>\$ 4,241,114</u>

B. Business-Type Activities

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

	<u>Balance</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2012</u>
<i>Capital assets being depreciated:</i>				
Furniture/Equipment	\$ 195,078	\$ -	\$ -	\$ 195,078
Vehicles	<u>41,545</u>	<u>-</u>	<u>-</u>	<u>41,545</u>
Total capital assets being depreciated	<u>236,623</u>	<u>-</u>	<u>-</u>	<u>236,623</u>
<i>Less: accumulated depreciation</i>				
Furniture/Equipment	(177,331)	(3,366)	-	(180,697)
Vehicles	<u>(3,029)</u>	<u>(5,193)</u>	<u>-</u>	<u>(8,222)</u>
Total accumulated depreciation	<u>(180,360)</u>	<u>(8,559)</u>	<u>-</u>	<u>(188,919)</u>
Net capital assets	<u>\$ 56,263</u>	<u>\$ (8,559)</u>	<u>\$ -</u>	<u>\$ 47,704</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years, the District entered into capital lease agreements for the acquisition of copiers, computers and networking equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of copiers, computer and networking equipment have been capitalized in the amount of \$4,256,671. This amount represents the present value of the future minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 was \$2,800,443, leaving a current book value of \$1,456,228.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2012 fiscal year totaled \$588,756 and \$79,485, respectively. These amounts are reported as debt service payments of the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2012:

Fiscal Year Ending June 30,	Amount
2013	\$ 498,287
2014	230,244
2015	230,244
2016	230,244
2017	95,935
Total minimum lease payment	1,284,954
Less: amount representing interest	(117,892)
Present value of minimum lease payments	\$ 1,167,062

NOTE 10 - LONG-TERM OBLIGATIONS

- A. General obligation bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current 2.52 (average) mill bonded debt tax levy.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Series 2007 School Facilities Improvement Bonds

On August 9, 2007, the District issued \$43,779,967 in general obligation bonds to provide financing for various construction projects. The issue is comprised of both current interest bonds, par value \$42,275,000 and capital appreciation bonds, par value \$1,504,967. The interest rates on the current interest bonds range from 4.00% - 5.00%. The capital appreciation bonds mature each December 1, 2015 through 2018 (stated interest rate 11.474-11.618%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2015, 2016, 2017 and 2018 are \$975,000, \$1,165,000, \$1,190,000 and \$1,210,000, respectively. Total accreted interest of \$1,076,479 has been included on the statement of net assets.

The following is a summary of the future debt service requirements to maturity for the series 2007 school facilities improvement bonds:

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 60,000	\$ 1,998,162	\$ 2,058,162	\$ -	\$ -	\$ -
2014	75,000	1,995,294	2,070,294	-	-	-
2015	65,000	1,992,319	2,057,319	-	-	-
2016	-	1,568,437	1,568,437	385,738	589,262	975,000
2017	-	1,440,933	1,440,933	409,335	755,665	1,165,000
2018 - 2022	4,540,000	8,400,162	12,940,162	709,894	1,690,106	2,400,000
2023 - 2027	10,575,000	7,702,988	18,277,988	-	-	-
2028 - 2032	15,195,000	4,540,688	19,735,688	-	-	-
2033 - 2035	11,585,000	797,512	12,382,512	-	-	-
Total	<u>\$ 42,095,000</u>	<u>\$ 30,436,495</u>	<u>\$ 72,531,495</u>	<u>\$ 1,504,967</u>	<u>\$ 3,035,033</u>	<u>\$ 4,540,000</u>

C. Series 2007 Refunding General Obligation Bonds

On May 9, 2007, the District issued general obligation bonds (Series 2007 Refunding Bonds) to advance refund the callable portion of the Series 2004 school improvement current interest bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The balance of the refunded current interest bonds at June 30, 2012, is \$47,140,000.

The refunding issue is comprised of both current interest bonds, par value \$45,195,000 and capital appreciation bonds par value \$1,944,953. The interest rates on the current interest bonds range from 4.00% - 4.50%. The capital appreciation bonds mature on each December 1, 2014 - 2017 (stated interest rate 15.821%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing each December 1, 2014 - 2017 are \$495,000, \$2,675,000, \$2,450,000 and \$2,450,000, respectively. Total accreted interest of \$2,258,377 has been included on the statement of net assets at June 30, 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2031.

The reacquisition price exceeded the net carrying amount of the old debt by \$2,865,968. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The following is a summary of the future debt service requirements to maturity for the series 2007 refunding bonds:

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 460,000	\$ 1,875,096	\$ 2,335,096	\$ -	\$ -	\$ -
2014	480,000	1,856,296	2,336,296	-	-	-
2015	-	1,846,696	1,846,696	156,528	338,472	495,000
2016	-	1,846,696	1,846,696	726,423	1,948,577	2,675,000
2017	-	1,846,696	1,846,696	571,340	1,878,660	2,450,000
2018 - 2022	10,435,000	8,354,514	18,789,514	490,662	1,959,338	2,450,000
2023 - 2027	15,405,000	5,257,012	20,662,012	-	-	-
2028 - 2032	15,525,000	1,625,965	17,150,965	-	-	-
Total	\$ 42,305,000	\$ 24,508,971	\$ 66,813,971	\$ 1,944,953	\$ 6,125,047	\$ 8,070,000

D. Series 2006 Construction Bonds

On August 30, 2006, the District issued \$13,499,995 in general obligation bonds to provide financing for various construction projects. The issue is comprised of both current interest bonds, par value \$13,330,000 and capital appreciation bonds, par value \$169,995. The interest rates on the current interest bonds range from 3.50% - 5.00%. The capital appreciation bonds mature each December 1, 2015 through 2016 (stated interest rate 17.253%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bond maturing December 1, 2015 is \$400,000 and the accreted value at maturity for the capital appreciation bond maturing December 1, 2016 is \$450,000. Total accreted interest of \$267,833 has been included on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the series 2006 construction bonds:

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 190,000	\$ 546,042	\$ 736,042	\$ -	\$ -	\$ -
2014	200,000	537,242	737,242	-	-	-
2015	225,000	527,967	752,967	-	-	-
2016	-	523,691	523,691	87,024	312,976	400,000
2017	-	523,691	523,691	82,971	367,029	450,000
2018 - 2022	2,550,000	2,357,292	4,907,292	-	-	-
2023 - 2027	3,570,000	1,708,039	5,278,039	-	-	-
2028 - 2032	4,805,000	810,796	5,615,796	-	-	-
2033	1,185,000	25,922	1,210,922	-	-	-
Total	\$ 12,725,000	\$ 7,560,682	\$ 20,285,682	\$ 169,995	\$ 680,005	\$ 850,000

E. Series 2004 School Improvement Bonds

During fiscal year 2004, the District issued \$64,999,987 in general obligation bonds to provide financing for various construction projects. The issue is comprised of both current interest bonds, par value \$63,740,000 and capital appreciation bonds, par value \$1,259,987. The interest rates on the current interest bonds range from 2.75% - 5.25%. During fiscal year 2007, \$47,140,000 was refunded as described in Note 10.C. The capital appreciation bonds mature December 1, 2013 (stated interest 5.55%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bond maturing December 1, 2013 is \$2,110,000. Total accreted interest of \$683,705 has been included on the statement of net assets.

The following is a summary of the future debt service requirements to maturity for the series 2004 school improvement bonds:

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 1,745,000	\$ 128,950	\$ 1,873,950	\$ -	\$ -	\$ -
2014	-	94,050	94,050	1,259,987	850,013	2,110,000
2015	2,090,000	47,025	2,137,025	-	-	-
Total	\$ 3,835,000	\$ 270,025	\$ 4,105,025	\$ 1,259,987	\$ 850,013	\$ 2,110,000

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

F. Series 2003 Library Improvement Bonds

On December 1, 2003, the District issued \$12,500,000 in general obligation bonds on behalf of the Lakewood Public Library. The bonds were placed in the name of the Lakewood City School District. In accordance with Ohio Revised Code Section 3375.43 - 45, local libraries are not allowed to issue debt or levy taxes in their name, therefore, after School Board approval, the levy was placed in the name of Lakewood City School District. The District, acting as taxing authority for the Library, collects levied taxes and makes required debt service payments. The library improvement bonds are a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The bonds mature on December 1, 2023 and bear an annual interest rate of 1.20% - 5.00%. The source of payment is derived from a current bonded debt tax levy. At June 30, 2012, the balance of the bonds of \$9,605,000, bond premiums of \$97,844 and bond issuance costs of \$97,844 have not been included in the calculation of invested in capital assets, net of related debt because the capital assets purchased from this issuance are not included in the District's capital assets.

The following is a summary of the future debt service requirements to maturity for the series 2003 library improvement bonds:

Fiscal Year Ending June 30,	Current Interest Bonds		
	Principal	Interest	Total
2013	\$ 535,000	\$ 439,558	\$ 974,558
2014	555,000	420,832	975,832
2015	575,000	400,575	975,575
2016	660,000	371,825	1,031,825
2017	690,000	338,825	1,028,825
2018 - 2022	4,355,000	1,132,425	5,487,425
2023 - 2024	<u>2,235,000</u>	<u>153,450</u>	<u>2,388,450</u>
Total	<u>\$ 9,605,000</u>	<u>\$ 3,257,490</u>	<u>\$ 12,862,490</u>

G. Series 2002 Refunding General Obligation Bonds

On December 1, 2002, the District issued general obligation bonds (Series 2002 School Improvement Refunding Bonds) to advance refund the callable portion of the Series 1993 School Improvement General Obligation Bonds (principal \$4,385,000; interest rate 2.5%). The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$4,020,000 and capital appreciation bonds, par value \$364,993. The average interest rate on the current interest bonds was 2.79%. There is no further obligation on the current interest bonds. The capital appreciation bonds mature each December 1, 2012 and 2013 (stated interest rate 11.279%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bond maturing December 1, 2012 is \$575,000 and the accreted value at maturity for the capital appreciation bond maturing December 1, 2013 is \$575,000. Total accreted interest of \$667,017 has been included on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the series 2002 refunding bonds:

Fiscal Year Ending June 30,	Capital Appreciation Bonds		
	Principal	Interest	Total
2013	\$ 192,499	\$ 382,501	\$ 575,000
2014	172,494	402,506	575,000
Total	<u>\$ 364,993</u>	<u>\$ 785,007</u>	<u>\$ 1,150,000</u>

H. Series 2001 Refunding General Obligation Bonds

On June 14, 2001, the District issued general obligation bonds (Series 2001 School Improvement Refunding Bonds) to advance refund the callable portion of the Series 1994 School Improvement General Obligation Bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$2,875,000 and capital appreciation bonds, par value \$304,996. The average interest rate on the current interest bonds is 4.70%. There is no further obligation on the capital appreciation bonds.

The following is a summary of the future debt service requirements to maturity for the series 2001 refunding bonds:

Fiscal Year Ending June 30,	Current Interest Bonds		
	Principal	Interest	Total
2013	\$ 345,000	\$ 64,068	\$ 409,068
2014	365,000	46,672	411,672
2015	385,000	28,298	413,298
2016	385,000	9,432	394,432
Total	<u>\$ 1,480,000</u>	<u>\$ 148,470</u>	<u>\$ 1,628,470</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

I. The following is a summary of the bond and loan activity for fiscal year 2012:

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/12</u>	<u>Amounts</u> <u>due in</u> <u>One Year</u>
<u>General Obligation Bonds:</u>					
Series 2007 school facilities improvement current interest bonds 4.00-5.00%, 12/01/34 maturity	\$ 42,155,000	\$ -	\$ (60,000)	\$ 42,095,000	\$ 60,000
Series 2007 school facilities improvement capital appreciation bonds	1,504,967	-	-	1,504,967	-
Series 2007 school facilities improvement capital appreciation bonds accreted interest 11.474-11.618% (stated interest rate) 12/1/15-12/1/18 maturity	804,509	271,970	-	1,076,479	-
Series 2007, refunding current interest bonds (4.00-4.50%), 12/01/31 maturity	42,745,000	-	(440,000)	42,305,000	460,000
Series 2007, refunding capital appreciation bonds 15.821% (stated interest rate) 12/01/14 to 17, maturity	1,944,953	-	-	1,944,953	-
Series 2007, refunding capital appreciation bonds accreted interest	1,664,697	593,680	-	2,258,377	-
Series 2006, school construction current interest bonds 3.50-5.00%, 12/01/32 maturity	12,905,000	-	(180,000)	12,725,000	190,000
Series 2006, school construction capital appreciation bonds 17.253% (stated), 12/01/15 and 16, maturity	169,995	-	-	169,995	-
Series 2006, school construction capital appreciation bonds accreted interest	201,055	66,778	-	267,833	-
Series 2004, school improvement current interest bonds 2.75-5.25%, 12/01/14 maturity	5,535,000	-	(1,700,000)	3,835,000	1,745,000
Series 2004, school improvement capital appreciation bonds 5.55% (average effective), 12/01/13 maturity	1,259,987	-	-	1,259,987	-
Series 2004, school improvement bonds accreted interest	580,180	103,525	-	683,705	-
Series 2003, library improvement 1.20 - 5.00%, 12/01/23 maturity	10,060,000	-	(455,000)	9,605,000	535,000

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/12</u>	<u>Amounts</u> <u>due in</u> <u>One Year</u>
General Obligation Bonds:					
Series 2002, refunding current interest bonds 2.79%, 12/01/11 maturity	\$ 550,000	\$ -	\$ (550,000)	\$ -	\$ -
Series 2002, refunding capital appreciation bonds 11.279% (stated interest rate) 12/01/12 and 13	364,993	-	-	364,993	192,499
Series 2002, refunding capital appreciation bonds accrued interest	559,722	107,295	-	667,017	351,796
Series 2001, refunding current interest bonds 4.70%, 12/01/15 maturity	<u>1,810,000</u>	<u>-</u>	<u>(330,000)</u>	<u>1,480,000</u>	<u>345,000</u>
Total Bonds	<u>\$ 124,815,058</u>	<u>\$ 1,143,248</u>	<u>\$ (3,715,000)</u>	<u>\$ 122,243,306</u>	<u>\$ 3,879,295</u>

J. The changes in the District's long-term obligations during the year consist of the following:

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/12</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
Governmental activities:					
Compensated absences payable	\$ 6,059,636	\$ 128,188	\$ (541,567)	\$ 5,646,257	\$ 402,655
Retirement incentives payable	5,330,392	1,966,745	(1,493,674)	5,803,463	1,865,528
General obligation bonds payable	124,815,058	1,143,248	(3,715,000)	122,243,306	3,879,295
Capital lease obligations	<u>1,755,818</u>	<u>-</u>	<u>(588,756)</u>	<u>1,167,062</u>	<u>445,299</u>
Total governmental activities long-term liabilities	<u>\$ 137,960,904</u>	<u>\$ 3,238,181</u>	<u>\$ (6,338,997)</u>	<u>134,860,088</u>	<u>\$ 6,592,777</u>
Less: Unamortized deferred charge on refunding				(2,253,298)	
Add: Unamortized premium on refunding				<u>5,054,294</u>	
Total on statement of net assets				<u>\$ 137,661,084</u>	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/12</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
Business-type activities:					
Compensated absences	\$ 96,873	\$ 48,722	\$ (42,014)	\$ 103,581	\$ 113
Total business-type activities long-term liabilities	<u>\$ 96,873</u>	<u>\$ 48,722</u>	<u>\$ (42,014)</u>	<u>\$ 103,581</u>	<u>\$ 113</u>

Governmental activities compensated absences and the retirement incentives will be paid from the fund from which the employee is paid which, for the District, is primarily the general fund. See Note 11 for further detail on the District's retirement incentive programs and Note 9 for further detail on the District's capital lease obligations.

Business-type activities compensated absences will be paid from the food service fund and the recreation fund (nonmajor business-type funds).

K. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012 are a voted debt margin of \$(32,753,993), including available funds of \$6,242,757 and an unvoted debt margin of \$869,924.

The Ohio Revised Code further provides that when a Board of Education declares a resolution that the student population is not adequately served by existing facilities, and that insufficient capacity exists within the 9% limit to finance additional facilities, the State Department of Education may declare that district a "special needs" district. This permits the incurrence of additional debt based upon projected 5-year growth of the school district's assessed valuation. The Lakewood City School District was determined to be a "special needs" district by the State Superintendent.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - OTHER EMPLOYEE BENEFITS

Timely Retirement Incentive Program (TRIP)

The District Board of Education has approved a TRIP for certified and classified employees. Participation was open to employees who were at least 50 years old, qualified for retirement with the years purchased by the Board and agreed to retire by the end of each fiscal year beginning in fiscal year 2007. Employees who elected to participate in the TRIP will receive a payment for their unused sick leave, to the extent allowed by the current labor agreement along with a payment of 60-75% of their annual salary. The payment for the TRIP is paid out over a five year period. The total liability for the TRIP at June 30, 2012 was \$5,803,463 of which \$1,865,528 is due within one year and \$3,937,935 is due in greater than one year. The liability is recorded in the governmental activities statement of net assets as a component of "long-term liabilities".

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the District contracted with the Ohio School Plan for property, crime, and inland marine insurance coverage, the Ohio School Plan for boiler and machinery insurance coverage, the Ohio Casualty for fleet insurance coverage and the Ohio School Plan for general liability insurance coverage. The Ohio School Plan was formed in conjunction with the Ohio Revised Code 2744 which allows public entities to join together for coverage purposes. The Ohio School Plan is reinsured by Aspen Re, CAN, Everest Re Group, Odyssey America, Lexington Insurance, Markel, Maumee, QBE and SCOR. There is no deductible for general liability and a \$2,500 deductible for error and omissions. The limitations of coverages are as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$273,651,101
Inland Marine Coverage (\$1,000 deductible)	Included in limit above
Boiler and Machinery (\$1,000)	100,000,000
Crime Insurance (\$1,000 deductible each coverage)	Various
Automobile Liability	3,000,000
Uninsured Motorists	1,000,000
General Liability:	
Per occurrence	3,000,000
Aggregate per year	5,000,000

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

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Worker's Compensation

During fiscal year 2012, the District has participated in the Ohio Bureau of Workers' Compensation (Bureau) Retrospective Rating Plan. The alternative rating program requires the District to pay only administrative charges to the Bureau, and in turn the District assumes the responsibility of paying all claims incurred during the policy period for up to ten years. After the tenth year, the Bureau will assume any existing claim for its duration. The District will be charged an actuarial amount for the claims transferred to the Bureau. The District's stop-loss coverage through the plan is limited to \$200,000 per claim stop-loss coverage with an annual aggregate. The Plan is administered by KKSG & Associates.

The District's Workers' Compensation program is accounted for in the internal service fund which pays for all claims, claim reserves and administrative costs of the program. The internal service fund generates revenues by charging each fund a percentage rate determined by the Bureau for the payroll during the reporting period. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2012	\$ 196,919	\$ 28,444	\$ (190,063)	\$ 35,300
2011	189,010	284,370	(276,461)	196,919

C. Group Health and Dental Insurance

For the fiscal year 2012, the District was a participant in the Suburban Health Consortium (the "Consortium") to provide employee health, dental, vision and prescription drug benefits. The Consortium is administered by Medical Mutual. Payments are made to the Consortium for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the Consortium is the Orange City School District. The Treasurer of the fiscal agent pays monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges. The entire risk of loss transfers to the Consortium upon payment of the premiums. The District's portion of the monthly insurance premiums is as follows:

	<u>Board Share of Premium</u>			
	<u>Full-Time Family</u>	<u>Part-Time Family</u>	<u>Full-Time Single</u>	<u>Part-Time Single</u>
	Health:			
Suburban Health Consortium	\$ 929.35	\$ 464.67	\$ 370.44	\$ 185.22
Kaiser (HMO)	929.35	464.67	535.65	267.83
Prescription drug	213.25	106.63	85.29	42.65
Dental	79.66	39.83	27.48	13.74
Vision	9.36	4.58	2.20	1.10
Health/Employees covered by a working spouse:				
Suburban Health Consortium	789.94	394.97	370.44	185.22
Prescription drug	181.25	90.63	85.29	42.65

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 12 - RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,311,260, \$1,220,647 and \$1,361,905, respectively; 61.52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 13 - PENSION PLANS - (Continued)

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

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

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

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$4,625,659, \$4,658,143 and \$4,802,397, respectively; 85.21 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$210,175 made by the District and \$150,125 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$209,898, \$311,304 and \$209,993, respectively; 61.52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$77,437, \$78,551 and \$80,990, respectively; 61.52 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**LAKWOOD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$355,820, \$358,319 and \$369,415, respectively; 85.21 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 909,701
Net adjustment for revenue accruals	(226,449)
Net adjustment for expenditure accruals	498,324
Net adjustment for other sources/uses	711,098
Funds budgeted elsewhere	(18,216)
Adjustment for encumbrances	306,687
GAAP basis	<u>\$ 2,181,145</u>

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

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 16 - SET-ASIDES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	963,650
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(1,046,487)
Excess qualified expenditures from prior years	-
Current year offsets	-
Waiver granted by ODE	-
Prior year offset from bond proceeds	-
Total	<u>\$ (82,837)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

NOTE 17 - CONTINGENCIES

A. Grants and ADM

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

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

**LAKWOOD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 18 - COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 225,810
Other governmental	<u>235,100</u>
 Total	 \$ <u><u>460,910</u></u>

NOTE 19- LAKEWOOD CITY ACADEMY

The Lakewood City Academy (the “Academy”) is a discretely presented component unit of the Lakewood City School District (the “District”). The District is the Sponsor of the Academy. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. This separately issued financial report can be obtained from the Treasurer of the Academy at 1470 Warren Road, Lakewood, OH 44107-3918.

Summary of Significant Accounting Policies

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Academy also applies Financial Accounting Standards Board (FASB) guidance issued prior to November 30, 1989, provided it does not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB guidance issued after November 30, 1989. The Academy's significant accounting policies are described below.

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 19 - LAKEWOOD CITY ACADEMY - (Continued)

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

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.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time that they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

E. Cash

All monies received by the Academy are deposited in a demand deposit account.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$500. The Academy does not have 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 19 - LAKEWOOD CITY ACADEMY - (Continued)

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over 5-20 years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for locally funded programs, federally funded programs, public school support and other purposes.

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

H. Intergovernmental Revenue

The Academy currently participates in the State foundation program through the Ohio Department of Education, One Net Connectivity grant, Education Jobs grant, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the Federal Title IV Drug-Free Schools grant, the Federal Title II-A Improving Teacher Quality grant and the Federal Title II-D Technology grant. Revenues from these programs are recognized in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as operating grants and contributions in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue for the fiscal year 2012 was \$105,680.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

The preparation of financial statements in conformity with GAAP 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 19 - LAKEWOOD CITY ACADEMY - (Continued)

Deposits

At June 30, 2012, the carrying amount of the Academy's deposits was \$469,856. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$219,856 of the Academy's bank balance of \$469,856 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (the "FDIC").

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

Capital Assets

Capital asset activity for the fiscal year 2012 was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Furniture and equipment	\$ 166,742	\$ -	\$ -	\$ 166,742
Less: accumulated depreciation	<u>(124,494)</u>	<u>(15,345)</u>	<u>-</u>	<u>(139,839)</u>
Capital assets, net	<u>\$ 42,248</u>	<u>\$ (15,345)</u>	<u>\$ -</u>	<u>\$ 26,903</u>

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2012, the Academy was named on the Sponsor's policy for property and general liability insurance. The Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$20,000.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 19 - LAKEWOOD CITY ACADEMY - (Continued)

Purchased Services

For the fiscal year 2012 purchased services expenses were as follows:

Professional and technical services	\$ 1,006,523
Property services	24,000
Travel mileage/meeting	130
Contracted craftor trade	4,158
Pupil transportation	<u>983</u>
Total	<u>\$ 1,035,794</u>

Contingencies

A. Grants and ADM

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 Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect of the financial statements.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The Academy anticipates no adjustments to State funding for fiscal year 2013 as a result of the reviews which have yet to be completed.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 19 - LAKEWOOD CITY ACADEMY - (Continued)

Receivables

The Academy had the following intergovernmental receivables at June 30, 2012:

Education jobs	\$ 3,281
Title VI-B	2,190
Title I	6,202
Title II-A	<u>451</u>
Total	<u>\$ 12,124</u>

The intergovernmental receivables are expected to be collected in the subsequent year.

Service Agreements

A. Tri-Rivers Educational Computer Association

The Academy entered into an agreement on August 14, 2009, with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy. During the fiscal year 2012, the Academy paid TRECA \$15,438 for services under the agreement.

Under the contract, TRECA is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$900 per student.
4. Curricular services limited to standardized curriculum developed by TRECA.

For these services, the Academy is required to pay the following fees to TRECA:

Enrollment - \$3,875 per full-time student enrolled per year. In case of a student enrolled with an Individual Education Plan (IEP), the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by an organization other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, the Academy will be required to pay only the actual costs for that student provided by TRECA. If the special education for a student is incurred by TRECA, then any additional amount received from the Department of Education for special education and related services is due to TRECA for that student.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 19 - LAKEWOOD CITY ACADEMY - (Continued)

If payments to the Academy from the Department of Education are reduced, the payments due from the Academy to TRECA shall be reduced accordingly.

B. Lakewood City School District

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Lakewood City School District outlined the specific payments to be made by the Academy to Lakewood City School District during the fiscal year 2012. In addition the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood City School District. The Academy paid Lakewood City School District \$967,573 during the fiscal year 2012 for services rendered under the Community School Sponsorship Contract and the annual Purchased Services Contract.

NOTE 20 - SUBSEQUENT EVENTS

On August 1, 2012, Tim Penton became the Treasurer of the District and Academy.

On July 31, 2012, the District issued \$7,770,000 in Series 2012 Library Improvement Refunding Bonds to partially refund the Series 2003 Library Improvement Bonds. The Refunding Bonds carry interest rates from 2.00 - 3.00% and have a final maturity of December 1, 2023.

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
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					
<u>Passed through Ohio Department of Education</u>					
<i>Child Nutrition Cluster:</i>					
National School Breakfast Program	10.553	\$ 120,909	\$ 0	\$ 120,909	\$ 0
National School Lunch Program	10.555	742,545	18,293	742,545	18,293
<i>Total Child Nutrition Cluster</i>		<u>863,454</u>	<u>18,293</u>	<u>863,454</u>	<u>18,293</u>
Total U.S. Department of Agriculture		<u>863,454</u>	<u>18,293</u>	<u>863,454</u>	<u>18,293</u>
U.S. Department of Education					
<u>Passed through Ohio Department of Education</u>					
<i>Title I, Part A Cluster:</i>					
Title I - Grants to Local Educational Agencies	84.010	1,729,737	0	1,693,336	0
ARRA - Title I - Grants to Local Educational Agencies	84.389	52,665	0	53,647	0
<i>Total Title I, Part A Cluster</i>		<u>1,782,402</u>	<u>0</u>	<u>1,746,983</u>	<u>0</u>
<i>Special Education Cluster:</i>					
Special Education Grants to States - IDEA Part B	84.027	1,498,007	0	1,381,115	0
Special Education - Preschool Grants - IDEA Preschool	84.173	97,216	0	95,316	0
<i>Total Special Education Cluster</i>		<u>1,595,223</u>	<u>0</u>	<u>1,476,431</u>	<u>0</u>
Adult Education - Basic Grants to States	84.002	145,820	0	157,632	0
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	218,798	0	215,419	0
<i>Title II-D - Educational Technology State Grants Cluster:</i>					
Education Technology State Grants - Title II-D	84.318	8,972	0	9,766	0
ARRA - Education Technology State Grants - Title II-D	84.386	41,607	0	42,993	0
<i>Total Title II-D - Educational Technology States Grants Cluster</i>		<u>50,579</u>	<u>0</u>	<u>52,759</u>	<u>0</u>
English Language Acquisition Grants - Title III, Part A	84.365	133,705	0	133,767	0
Improving Teacher Quality State Grants - Title II, Part A	84.367	359,145	0	375,559	0
Education Jobs Fund	84.410	734,951	0	735,004	0
Total U.S. Department of Education		<u>5,020,623</u>	<u>0</u>	<u>4,893,554</u>	<u>0</u>
U.S. Department of Health and Human Services					
<u>Passed through Educational Service Center of Cuyahoga County</u>					
Refugee Children Impact Program	93.576	24,735	0	38,335	0
Total U.S. Department of Health and Human Services		<u>24,735</u>	<u>0</u>	<u>38,335</u>	<u>0</u>
U.S. Department of Justice					
<u>Direct Award</u>					
Supporting Teens through Education and Protection	16.684	8,018	0	8,018	0
Total U.S. Department of Justice		<u>8,018</u>	<u>0</u>	<u>8,018</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 5,916,830</u>	<u>\$ 18,293</u>	<u>\$ 5,803,361</u>	<u>\$ 18,293</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards.

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
NOTES TO THE SUPPLEMENTAL SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2: CHILD NUTRITION CLUSTER

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

NOTE 3: FOOD DONATION PROGRAM

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

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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
Lakewood City School District
Lakewood, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lakewood City School District, Cuyahoga County, Ohio, as of and for the year ended June 30, 2012, which collectively comprise the Lakewood City School District, Ohio's basic financial statements and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Lakewood 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 Lakewood 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 Lakewood City School District, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lakewood 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lakewood 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 Lakewood City School District, Ohio, in a separate letter dated December 14, 2012.

This report is intended solely for the information and use of 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

December 14, 2012

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
Lakewood City School District
Lakewood, Ohio

Compliance

We have audited the Lakewood 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 Lakewood City School District, Ohio's major federal programs for the year ended June 30, 2012. The Lakewood 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 Lakewood City School District, Ohio's management. Our responsibility is to express an opinion on the Lakewood 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 Lakewood 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 Lakewood City School District, Ohio's compliance with those requirements.

In our opinion, the Lakewood 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.

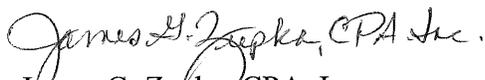
Internal Control Over Compliance

Management of the Lakewood 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 Lakewood 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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Lakewood 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.

This report is intended solely for the information and use of 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

December 14, 2012

**LAKEWOOD CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY, OHIO
 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 weakness conditions reported at the financial statement level (GAGAS)?	No
2012(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2012(iii)	Was there any reported 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?	No
2012(v)	Type of Major Program's Compliance Opinion	Unqualified
2012(vi)	Are there any reportable findings under .510?	No
2012(vii)	Major Programs (list): Title I Cluster: Title I Grants to Local Educational Agencies - CFDA # 84.010 ARRA - Title I Grants to Local Educational Agencies - CFDA #84.389 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?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012**

Management letter recommendations as of June 30, 2011, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • Auditor of State

LAKWOOD CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 26, 2013