

***SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO***

**AUDIT REPORT**

**For the Year Ended June 30, 2005**

***Charles E. Harris & Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





**Auditor of State  
Betty Montgomery**

Board of Education  
South Euclid Lyndhurst City School District  
5044 Mayfield Road  
Lyndhurst, Ohio 44124

We have reviewed the *Report of Independent Accountants* of the South Euclid Lyndhurst City School District, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 South Euclid Lyndhurst City School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

October 9, 2006

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**AUDIT REPORT**  
**For the Year Ended June 30, 2005**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education  
South Euclid-Lyndhurst City School District  
Lyndhurst, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

***Charles E. Harris & Associates, Inc.***

July 14, 2006



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The discussion and analysis of the South Euclid-Lyndhurst City School District's (the District) financial performance provided an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2005 are as follows:

- For governmental activities, net assets increased \$2,220,274. This is a 440 percent increase from fiscal year 2004.
- For governmental activities, total revenues increased to \$55,749,073 from \$54,125,671 in fiscal year 2004. This was an increase of \$1,623,402 or 3.0 percent.
- Total program expenses were \$53,528,799. Total program expenses decreased from \$54,271,407 in fiscal year 2004. This is a decrease of \$742,608 or 1.4 percent. An \$830,251 decrease in Operations and Maintenance of Plant reflects most of this change.
- The District had \$53,528,799 in expenses related to governmental activities; only \$6,248,518 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$49,500,555 were adequate to provide for these programs.

### **Using these Basic Financial Statements**

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

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, the fund financial statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the District's most significant funds with all the non-

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major funds presented in total in one column. In the case of the South Euclid-Lyndhurst City School District, the general fund is by far the most significant fund.

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains a 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 2005?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the basis of accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal 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 picture of the District has improved or diminished. The causes of this change may be as a 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 condition, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District has only one kind of activity:

- Governmental Activities – All of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. Due to the continuing subsidies that go to the lunchroom fund from the general fund, the lunchroom operation is also considered as governmental activities.

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

*Fund Financial Statements*

The analysis of the District's major funds begins on page 16. 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 financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

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

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

Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to fiscal year 2004 as follows:

**Table 1**  
Net Assets at June 30,

	Governmental Activities 2005	2004-Restated
<b>Assets:</b>		
Current and Other Assets	\$ 48,361,128	\$ 43,756,346
Capital Assets, Net of Accumulated Depreciation	<u>7,839,169</u>	<u>7,975,175</u>
<i>Total Assets</i>	56,200,297	51,731,521
<b>Liabilities:</b>		
Current and Other Liabilities	41,927,819	39,132,680
Long-Term Liabilities		
Due Within One Year	1,299,255	995,601
Due in More than One Year	<u>10,248,539</u>	<u>11,098,830</u>
<i>Total Liabilities</i>	53,475,613	51,227,111
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Debt	(2,358,947)	(2,639,825)
Restricted	3,107,390	3,318,578
Unrestricted	<u>1,976,241</u>	<u>(174,343)</u>
<i>Total Net Assets</i>	<u>\$ 2,724,684</u>	<u>\$ 504,410</u>

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Total assets increased \$4,349,201. Cash and cash equivalents and investments increased \$2,401,144, which was due to the District being at the beginning of its levy cycle. The decrease of \$136,006 in capital assets is attributed to depreciation expense exceeding capital asset acquisitions during fiscal year 2005.

Total liabilities increased \$2,248,502. The main reason for the increase was the result of deferred revenue increasing by \$2,862,348.

The net impact of the assets increase and the liabilities increase was an increase of \$2,220,274.

Table 2 shows the changes in net assets for fiscal years 2005 and 2004 for governmental activities as follows:

**Table 2**  
Changes in Net Assets for Governmental Activities

	2005	2004
<b>Revenue:</b>		
Program Revenues:		
Charges for Service and Sales	\$ 3,011,548	\$ 2,897,974
Operating Grants and Contributions	3,200,220	2,994,729
Capital Grants and Contributions	36,750	256,826
<i>Total Program Revenues</i>	6,248,518	6,149,529
General Revenues:		
Property Taxes	35,523,063	35,570,139
Grants and Entitlements	13,531,208	12,187,632
Investment Earnings	178,663	92,498
Miscellaneous	265,715	125,873
Gain on the Sale of Capital Assets	1,906	0
<i>Total General Revenues</i>	49,500,555	47,976,142
<b>Total Revenues</b>	55,749,073	54,125,671

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<b>Expenses:</b>	2005	2004
Instruction:		
Regular	\$ 20,497,111	\$ 21,165,902
Special	6,129,652	5,552,073
Vocational	1,178,533	1,168,041
Other	807,182	692,034
Support Services:		
Pupils	3,104,935	2,835,091
Instructional Staff	1,316,444	1,760,915
Board of Education	147,137	144,435
Administration	3,309,382	3,196,303
Fiscal	1,271,852	1,150,151
Business	373,815	389,322
Operations and Maintenance of Plant	6,873,937	7,704,188
Pupil Transportation	2,576,122	3,017,495
Central	1,207,010	1,194,407
Operation of Non-Instructional Services	1,556,370	1,413,100
Food Service Operation	1,489,264	1,315,668
Extracurricular Activities	988,824	924,481
Interest and Fiscal Charges	701,229	647,801
<b>Total Expenses</b>	<b>53,528,799</b>	<b>54,271,407</b>
Change in Net Assets	\$ 2,220,274	(\$145,736)

While program revenues increased for governmental activities from \$6,149,529 in fiscal year 2004 to \$6,248,518 in fiscal year 2005, the vast majority of revenues supporting governmental activities are general revenues. General revenues increased from \$47,976,142 to \$49,450,555 in fiscal year 2005. General revenues comprised 88.7 percent of revenues supporting governmental activities. The primary source for the increase was grants & entitlements, a \$1,343,576 increase. Personal Property tax revenue was the main reason for the loss of tax revenue, partially due to HB95, which reduces the amount of inventory tax paid by businesses and the devaluation of Adelphia Cable.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voter levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was to be appraised and increased to \$200,000 (and the inflationary increase in value is comparable to the other property owners) the effective tax rate would become 0.5 mills and the owner would still pay \$35.00.

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Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 63.7 percent of revenue for governmental activities for the South Euclid-Lyndhurst City School District in fiscal year 2005, a decrease from prior years.

Program expenses decreased from \$54,271,407 in fiscal year 2004 to \$53,528,799 in fiscal year 2005, a 1.4 percent decrease. Much of the decrease was a result of a reduction in staff. This reduction was needed due previous levy failures. This also accounts for most of the decrease in operation and maintenance of plant expenses, which had the largest decrease in terms of dollars (\$830,251). The District's largest program expense is instructional services, which increased slightly from fiscal year 2004 to 2005. These expenses comprise 53.5 percent of the District's total expenses. When combined with pupil and instructional support, these categories make up 66.3 percent of expenses.

The governmental expenses of \$53,528,799 were mostly offset by program revenues of \$6,248,518, general revenues of \$49,500,555 and prior year cash balances. Program revenues supported 12.6 percent of total governmental revenue. Net assets of the District's governmental activities increased by \$2,220,274. This was due to the fact that District expenses decreased 1.4 percent from last fiscal year, while District revenue increased 3.0 percent.

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

**Table 3**

Total Cost of Program Services  
Governmental Activities

	<u>2005</u>		<u>2004</u>	
	Total Cost Of Service	Net Cost Of Service	Total Cost Of Service	Net Cost Of Service
Instruction	\$ 28,612,478	\$(26,337,343)	\$ 28,578,050	\$(26,468,922)
Support Services:				
Pupil and Instructional Staff	4,421,379	(3,960,248)	4,596,006	(4,137,058)
Board of Education, Admin., Fiscal and Business	5,102,186	(5,049,234)	4,880,211	(4,717,636)
Operation and Maint. of Plant	6,873,937	(6,873,937)	7,704,188	(7,447,362)
Pupil Transportation	2,576,122	(2,576,122)	3,017,495	(3,017,495)
Central	1,207,010	(1,121,674)	1,194,407	(1,149,592)
Operation of Non-Instr. Services	1,556,370	321,161	1,412,100	412,642
Food Service Operations	1,489,264	(189,552)	1,315,668	(117,359)
Extracurricular Activities	988,824	(792,103)	924,481	(831,295)
Interest and Fiscal Charges	701,229	(701,229)	647,801	(647,801)
<b>Total Expenses</b>	<u>\$53,528,799</u>	<u>\$(47,280,281)</u>	<u>\$54,271,407</u>	<u>\$(48,121,878)</u>

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The dependence upon general tax revenues for governmental activities is apparent. Over 88.0 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue and prior year-end cash balances support all the remaining expenses as shown in the above table. The community, as a whole, is by far the primary support for the South Euclid-Lyndhurst City School District students.

**The District's Funds**

Information on the District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$55,389,051 and expenditures of \$53,982,973. The net change in fund balance for the year was most significant in the Other Governmental Funds, where the fund's net assets increased by \$1,676,043 for fiscal year 2005.

**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 2005 the District amended its General Fund budget numerous times. 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, budget basis revenue was \$47,452,344, over the original budget estimate of \$46,836,687. Most of this difference is attributed to the loss of tax revenue in both Residential/Agricultural and Personal Property. Personal Property tax revenue was the main reason for the loss of tax revenue, partially due to HB95, which reduces the amount of inventory tax paid by businesses and the devaluation of Adelphia Cable.

For the General Fund, budget basis expenditures were \$48,390,611, over the original budget estimate of \$47,791,795. This increase was due to the reimplementation of some budget reductions due to the passage of the May 3, 2005 levy. There were two main areas that came in well under their original budget; they were in the area of Instruction and Operation and Maintenance of Plant.

Total actual expenditures on the budget basis were \$48,146,578, \$287,715 over actual revenues. This is due to the fact that the District transferred \$540,750 to other funds for various purposes.

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**Capital Assets and Debt Administration**

At the end of fiscal year 2005, the District had \$7,839,169 invested in land, buildings, and equipment. Table 4 shows fiscal year 2005 net capital asset balances for governmental type activities compared to the prior fiscal year.

**Table 4**  
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2005	2004-Restated
Land and CIP	\$ 738,563	\$ 693,109
Buildings and Improvements	3,610,836	3,998,952
Furniture/Equipment/Fixtures	2,144,080	2,136,133
Vehicles	1,345,690	1,146,981
Total Capital Assets, Net	\$ 7,839,169	\$ 7,975,175

The decrease in capital assets is due to a reappraisal of the District's assets at June 30, 2005. Part of the decrease was also due to \$932,575 in depreciation expense for 2005, offset by \$861,707 in acquisitions. These acquisitions were distributed among buildings and improvements, furniture, equipment and vehicles. The District continued its ongoing commitment to maintaining and improving its capital assets. For more information on capital assets, see Note 9 of the notes to the basic financial statements.

**Debt**

At June 30, 2005, the District had \$10,125,000 in general obligation bonds outstanding. Of this total, \$515,000 is due within one year and \$9,610,000 is due in more than one year.

**Current Financial Related Activities**

As the preceding information shows, the District heavily depends on its property taxpayers. The District placed 6.7 operating levies on the ballot in March 2004 and August 2004. Both issues were not approved by the electors and \$750,000 in budget reductions were instituted in April 2004. The District was on the ballot again on May 3, 2005 with a 6.7 mill current operating levy, which was approved by the electors. Although the District was required to make \$2,500,000 in reductions for fiscal year 2006 in April 2005 in order to meet its financial operating needs for at least one more year.



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With its major sources of revenue not keeping pace with expenditure increases, the District must continually seek additional tax revenue to continue current operations. However, the District cannot look to the State of Ohio for increased revenue.

On December 11, 2002 the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations. Virtually no additional state revenue will be available to the South Euclid-Lyndhurst City School District. Thus, both taxes and state revenue are fixed or declining.

The scenario requires management to plan carefully and prudently to provide the resources to meet the needs over the next several years.

In addition, the District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Paul J. Pestello, Treasurer at the South Euclid-Lyndhurst City School District, 5044 Mayfield Road, Lyndhurst, Ohio 44124.

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**South Euclid Lyndhurst City School District**  
*Statement of Net Assets*  
*June 30, 2005*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 5,752,582
Receivables:	
Taxes	42,276,277
Intergovernmental	332,269
Nondepreciable Capital Assets	738,563
Depreciable Capital Assets (Net)	7,100,606
<i>Total Assets</i>	\$ 56,200,297
<b>Liabilities</b>	
Accounts Payable	262,676
Contracts Payable	45,454
Accrued Wages and Benefits	3,222,848
Matured Compensated Absences Payable	245,187
Intergovernmental Payable	1,952,111
Deferred Revenue	34,376,427
Accrued Interest Payable	73,116
Notes Payable	1,750,000
Long Term Liabilities:	
Due Within One Year	1,299,255
Due In More Than One Year	10,248,539
<i>Total Liabilities</i>	53,475,613
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	(2,358,947)
Restricted for:	
Capital Projects	839,186
Debt Service	793,790
Budget Stabilization	534,738
Other Purposes	939,676
Unrestricted	1,976,241
<i>Total Net Assets</i>	\$ 2,724,684

See accompanying notes to the basic financial statements.

**South Euclid Lyndhurst City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
Current:				
Instruction:				
Regular	\$ 20,497,111	\$ 1,229,392	\$ 322,488	\$ 36,750
Special	6,129,652	59	686,446	0
Vocational	1,178,533	0	0	0
Other	807,182	0	0	0
Support services:				
Pupils	3,104,935	0	300,560	0
Instructional staff	1,316,444	35,585	124,986	0
Board of education	147,137	3,018	0	0
Administration	3,309,382	186	49,748	0
Fiscal	1,271,852	0	0	0
Business	373,815	0	0	0
Operation and maintenance of plant	6,873,937	0	0	0
Pupil transportation	2,576,122	0	0	0
Central	1,207,010	43,402	41,934	0
Operation of non-instructional services	1,310,645	400,682	1,247,061	0
Food service operations	1,489,264	872,717	426,995	0
Uniform supplies	22,381	21,618	0	0
Adult education	223,344	208,170	0	0
Extracurricular activities	988,824	196,721	0	0
Interest and fiscal charges	701,229	0	0	0
<b>Total Governmental Activities</b>	<b>\$ 53,528,799</b>	<b>\$ 3,011,550</b>	<b>\$ 3,200,218</b>	<b>\$ 36,750</b>

**General Revenues**

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Gain on Sale of Capital Assets

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Restated, See Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

Governmental  
Activities

\$	(18,908,481)
	(5,443,147)
	(1,178,533)
	(807,182)
	(2,804,375)
	(1,155,873)
	(144,119)
	(3,259,448)
	(1,271,852)
	(373,815)
	(6,873,937)
	(2,576,122)
	(1,121,674)
	337,098
	(189,552)
	(763)
	(15,174)
	(792,103)
	(701,229)
	<u>(47,280,281)</u>
	32,646,792
	1,075,953
	1,800,318
	13,531,208
	178,663
	265,715
	<u>1,906</u>
	<u>49,500,555</u>
	2,220,274
	<u>504,410</u>
\$	<u><u>2,724,684</u></u>

**South Euclid-Lyndhurst City School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2005*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,016,292	\$ 4,201,552	\$ 5,217,844
Cash and Cash Equivalents:			
Restricted Cash	534,738	0	534,738
Receivables:			
Taxes	39,068,900	3,207,377	42,276,277
Interfund	1,400	0	1,400
Intergovernmental	274,569	57,700	332,269
<i>Total Assets</i>	<u>\$ 40,895,899</u>	<u>\$ 7,466,629</u>	<u>\$ 48,362,528</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	122,142	140,534	\$ 262,676
Contracts Payable	0	45,454	45,454
Accrued Wages and Benefits	3,188,860	33,988	3,222,848
Matured Compensated Absences Payable	245,187	0	245,187
Interfund Payable	0	1,400	1,400
Intergovernmental Payable	1,907,995	44,116	1,952,111
Deferred Revenue	33,701,186	2,767,775	36,468,961
Notes Payable	0	1,750,000	1,750,000
<i>Total Liabilities</i>	39,165,370	4,783,267	43,948,637
<b>Fund Balances</b>			
Fund Balance:			
Reserved for Encumbrances	508,358	316,122	824,480
Reserved for Tax Revenue Unavailable for Appropriation	5,367,714	440,664	5,808,378
Reserved for Budget	534,738	0	534,738
Undesignated, Unreserved Reported in:			
General Fund	(4,680,281)	0	(4,680,281)
Special Revenue Funds	0	1,103,326	1,103,326
Debt Service Fund	0	575,394	575,394
Capital Projects Funds	0	247,856	247,856
<i>Total Fund Balances</i>	<u>1,730,529</u>	<u>2,683,362</u>	<u>4,413,891</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 40,895,899</u>	<u>\$ 7,466,629</u>	<u>\$ 48,362,528</u>

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets Governmental Activities  
 June 30, 2005*

Total Governmental Fund Balances		\$	4,413,891
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			7,839,169
Other long-term assets are not available to pay for current- period expenditures and therefore, are deferred in the funds.			
Grants	\$	1,062	
Delinquent Property Taxes		<u>2,091,472</u>	2,092,534
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		(10,125,000)	
Compensated Absences		(1,422,794)	
Accrued Interest Payable		<u>(73,116)</u>	<u>(11,620,910)</u>
 Net Assets of Governmental Activities			 <u><u>\$ 2,724,684</u></u>

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Taxes	\$ 32,305,707	\$ 2,859,021	\$ 35,164,728
Intergovernmental	13,115,892	3,539,577	16,655,469
Investment income	173,700	4,963	178,663
Tuition and fees	1,184,718	243,755	1,428,473
Extracurricular activities	76,103	167,346	243,449
Rentals	394,962	0	394,962
Charges for services	0	894,335	894,335
Gifts and donations	0	163,257	163,257
Miscellaneous	212,980	52,735	265,715
<i>Total Revenues</i>	<u>47,464,062</u>	<u>7,924,989</u>	<u>55,389,051</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	19,955,706	441,282	20,396,988
Special	5,489,889	662,976	6,152,865
Vocational	1,171,402	0	1,171,402
Other	807,182	0	807,182
Support services:			
Pupils	2,792,875	277,417	3,070,292
Instructional staff	1,148,160	212,978	1,361,138
Board of education	143,341	3,796	147,137
Administration	3,206,648	77,281	3,283,929
Fiscal	1,253,533	0	1,253,533
Business	366,630	0	366,630
Operation and maintenance of plant	6,277,457	512,996	6,790,453
Pupil transportation	2,615,390	199,587	2,814,977
Central	973,830	195,186	1,169,016
Operation of non-instructional services	117,489	1,287,159	1,404,648
Food service operations	0	1,467,663	1,467,663
Uniform supplies	0	22,381	22,381
Adult education	0	223,344	223,344
Extracurricular activities	761,247	144,936	906,183
Capital outlay	0	55,099	55,099
Debt service:			
Principal retirement	0	490,000	490,000
Interest and fiscal charges	0	628,113	628,113
<i>Total Expenditures</i>	<u>47,080,779</u>	<u>6,902,194</u>	<u>53,982,973</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	383,283	1,022,795	1,406,078
<b>Other Financing Sources (Uses):</b>			
Proceeds from sales of capital assets	6,067	112,498	118,565
Transfers in	0	540,750	540,750
Transfers out	(540,750)	0	(540,750)
<i>Total Financing Sources and (Uses)</i>	<u>(534,683)</u>	<u>653,248</u>	<u>118,565</u>
<i>Net Change in Fund Balance</i>	(151,400)	1,676,043	1,524,643
<i>Fund balance (deficit) at beginning of year</i> <i>(Restated, See Note 3)</i>	<u>1,881,929</u>	<u>1,007,319</u>	<u>2,889,248</u>
<i>Fund balance (deficit) at end of year</i>	<u>\$ 1,730,529</u>	<u>\$ 2,683,362</u>	<u>\$ 4,413,891</u>

See accompanying notes to the basic financial statements.



**South Euclid-Lyndhurst City School District**  
*Reconciliation of the Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds	\$	1,524,643
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures, However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	907,161	
Current Year Depreciation	(932,575)	(25,414)
 Net effect of transactions involving sale of capital assets are not reflected in the funds		
		(110,592)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	(219)	
Delinquent Property Taxes	358,335	358,116
 Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal		490,000
 In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
		(73,116)
 Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Compensated Absences		56,637
Change in Net Assets of Governmental Activities	\$	2,220,274

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 36,990,219	\$ 33,019,397	\$ 32,895,458	\$ (123,939)
Intergovernmental	8,581,313	12,412,597	12,864,115	451,518
Investment Income	110,575	160,414	166,288	5,874
Tuition and Fees	787,791	1,142,872	1,184,718	41,846
Extracurricular Activities	50,605	73,415	76,103	2,688
Rentals	194,962	394,962	394,962	0
Miscellaneous	68,500	184,146	211,285	27,139
<i>Total Revenues</i>	<u>46,783,965</u>	<u>47,387,803</u>	<u>47,792,929</u>	<u>405,126</u>
<b>Expenditures:</b>				
<b>Current</b>				
Instruction	26,721,331	27,695,897	27,648,688	47,209
Support Services				
Pupils	2,764,750	2,810,235	2,798,903	11,332
Instructional Staff	1,957,215	1,240,032	1,230,784	9,248
Board of Education	165,694	146,704	140,327	6,377
Administration	2,900,637	3,214,067	3,207,144	6,923
Fiscal	1,186,158	1,281,158	1,273,999	7,159
Business	377,720	361,720	349,221	12,499
Operation and Maintenance of Plant	6,801,292	6,486,342	6,401,245	85,097
Pupil Transportation	2,543,373	2,702,373	2,693,386	8,987
Central	1,135,067	1,004,180	994,764	9,416
Operation of Non-Instructional Services	14,000	131,595	100,887	30,708
Extracurricular Activities	716,558	773,058	761,080	11,978
<i>Total Expenditures</i>	<u>47,283,795</u>	<u>47,847,361</u>	<u>47,600,428</u>	<u>246,933</u>
Excess of Revenues Over (Under) Expenditures	(499,830)	(459,558)	192,501	652,059
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Assets	4,034	5,853	6,067	214
Refund of Prior Year Expenditures	22,188	32,188	33,367	1,179
Refund of Prior Year Receipts	(1,000)	(1,000)	0	1,000
Advances In	26,500	26,500	26,500	0
Advances Out	(7,500)	(1,500)	(5,400)	(3,900)
Transfers Out	(499,500)	(540,750)	(540,750)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(455,278)</u>	<u>(478,709)</u>	<u>(480,216)</u>	<u>(1,507)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(955,108)	(938,267)	(287,715)	650,552
<i>Fund Balance (Deficit) at Beginning of Year (Restated, See Note 3)</i>	657,830	657,830	657,830	0
Prior Year Encumbrances Appropriated	565,873	565,873	565,873	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 268,595</u>	<u>\$ 285,436</u>	<u>\$ 935,988</u>	<u>\$ 650,552</u>

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2005*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 575,265
<i>Total Assets</i>	<u>\$ 575,265</u>
<b>Liabilities</b>	
Accounts Payable	\$ 5,697
Intergovernmental Payable	484
Undistributed Monies	465,809
Due to Students	<u>103,275</u>
<i>Total Liabilities</i>	<u>\$ 575,265</u>

See accompanying notes to the basic financial statements.

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## South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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### **Note 1 – Nature of Basic Operations and Description of the Entity**

The South Euclid-Lyndhurst City School District (School District) is a body public and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is governed by a locally-elected five-member Board of Education (Board) and provides educational services as mandated by state and/or federal agencies. This Board controls the School District's instructional/support facilities which are staffed by 246 classified and 367 certificated personnel who provide services to 4,616 students and other community members.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District has no component units.

The following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are these entities fiscally dependent on the School District.

***Cities of South Euclid and Lyndhurst*** The city governments are separate body politic and corporate. City officials are elected independent of any School District relationships and administer the provision of traditional city services. City Councils act as the taxing and budgeting authority for these city services.

***Parent Teacher Association*** The School District is not involved in the budgeting or management and is not responsible for any debt and has no influence over the organization.

The School District is associated with two jointly governed organizations, one joint venture, and one public entity risk pool. These organizations are discussed in Note 10, Note 16, and Note 17 to the basic financial statements. These organizations are:

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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Jointly Governed Organizations:

Lakeshore Northeast Ohio Computer Association (LNOCA)

Ohio Schools Council

Joint Venture:

South Euclid-Lyndhurst Recreation Commission (SELREC)

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

### **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. For the year ended June 30, 2005, the School District has implemented GASB Statement No. 40 "*Deposit and Investment Risk Disclosures.*" There was no effect on fund balances as a result of this implementation. Also, the School District has implemented GASB Technical Bulletin No. 2004-2 "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." See Note 3 to the Financial Statements for effect on fund balances. The most significant of the School District's accounting policies are described below.

#### ***A. Basis of Presentation***

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

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

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

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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

#### ***B. Fund Accounting***

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

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

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

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

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

#### ***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

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

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

***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. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.



## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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

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

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

#### ***E. Budgetary Data***

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

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

#### ***F. Cash and Cash Equivalents***

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

During fiscal year 2005, investments were limited to STAROhio, (the State Treasurer's Investment Pool).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

## **South Euclid-Lyndhurst City School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005*

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STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005. Certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$173,700, which includes \$130,881 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

#### ***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. At June 30, 2005, there were no prepaid items.

#### ***H. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 22 for additional information regarding set asides.

#### ***I. 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 are reported in the government-wide statement of net assets.

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

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

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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Description	Governmental Activities Estimated Lives
Land	N/A
Construction in Progress	N/A
Buildings and Improvements	10 - 40 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	13 Years

***J. Interfund Balances***

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

***K. Compensated Absences***

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for employees after 20 years of current service with the School District and attaining the age of 40.

The entire compensated absence liability is reported on the government-wide financial statements. In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

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

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

## **South Euclid-Lyndhurst City School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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#### ***M. Net Assets***

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

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

#### ***N. Fund Balance Reserves***

The School District reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation for expenditures. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, property taxes and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

#### ***O. Interfund Activity***

Transfers between governmental and proprietary funds on the government-wide statements are reported in the same manner as general revenues.

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

#### ***P. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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***Q. Estimates***

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

**Note 3 – Restatement of Fund Balance/Net Assets**

Based on guidance issued in GASB Technical Bulletin No. 2004-2 “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers”, it was determined that unpaid pension expenditures due at year-end should be recorded as a fund liability on the balance sheet.

In addition, it was determined that the activities in the internal service rotary fund were more appropriately accounted for in the general fund. Accordingly, effective July 1, 2004, the internal service fund has been eliminated and reclassified to the general fund.

As a result, fund balances have been restated as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Balance Sheet - Governmental Funds</u>			
Fund Balance June 30, 2004	\$ 2,519,850	\$ 1,028,467	\$ 3,548,317
Addition of intergovernmental payables	(663,838)	(21,148)	(684,986)
Reclassification of internal service fund	25,917	0	25,917
	<u>          </u>	<u>          </u>	<u>          </u>
Restated Fund Balance June 30, 2004	<u>\$ 1,881,929</u>	<u>\$ 1,007,319</u>	<u>\$ 2,889,248</u>

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
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During the year, the School District had a valuation of capital assets performed. The adjustment to net assets is as follows:

	Governmental Activities
Net Assets June 30, 2004	\$ 623,985
Decrease in Capital Assets	(119,575)
Restated Net Assets June 30, 2004	\$ 504,410

In addition to the reclassification of the internal service rotary fund described above, it was discovered that the beginning budgetary balance was incorrect. The adjustments to the general fund budgetary fund balance are as follows:

	General Fund
Fund Balance June 30, 2004	\$ 391,759
Reclassification of Internal Service Fund	33,382
Correction to Fund Balance	232,689
Restated Fund Balance June 30, 2004	\$ 657,830

**Note 4 - Accountability**

Fund Balances at June 30, 2005 included the following individual fund deficits:

	Deficit Fund Balance
Building Fund	\$ 1,749,427

The above fund and account deficit was caused by the recognition of notes payable.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, relies upon accounting for transactions on the basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Statement of Revenues, Expenditures, and Changes in

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements  
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Fund Balance - Budget (Non-GAAP Basis)” is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.
4. Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).

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

**Net Change in Fund Balance**

	<u>General</u>
GAAP Basis	\$ (151,400)
Net Adjustment for Revenue Accruals	528,547
Advance In	26,500
Net Adjustment for Expenditure Accruals	(70,920)
Advance Out	(5,400)
Adjustment for Encumbrances	<u>(615,042)</u>
Budget Basis	<u><u>\$ (287,715)</u></u>

**Note 6 - Deposits and Investments**

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

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

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

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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

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

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

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



**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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Protection of School 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.

***Deposits***

The carrying value of the School District's deposits totaled \$(760,214) and the bank balances of the deposits totaled \$27,310. Of the bank balance \$27,310 was covered by depository insurance. The negative carry-value above represents the School District's controlled disbursements method of cash management and forecasting.

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

***Investments***

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments:

	Fair Value	Investment Maturities (in months) 0 - 6
STAROhio	\$ 7,088,061	\$ 7,088,061

**Interest Rate Risk:** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Unless matched to a specific obligation or debt of the School District, the School District will not directly invest in securities maturing more than three years from the date of settlement if such securities bear interest at a fixed rate, and it will not directly invest in such securities maturing more than two years from the date of settlement if they bear interest at a variable rate.

**Credit Risk:** The School District's investments at June 30, 2005 in STAROhio is rated AAA by Standard & Poor's.

**Concentration of Credit Risk:** The School District diversifies its investments by security, type, and institution. With the exception of direct obligations of the U. S. Treasury and STAROhio, no more that 25% of the School District's total investment portfolio will be invested in a single security type or with a single financial institution. The School District's only investment at June 30, 2005 is in STAROhio.

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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**Note 7 – Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. The Cuyahoga County Auditor is responsible for assessing and remitting these property taxes to the School District.

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Cuyahoga County Auditor reappraises real property every six years with a triennial update, which was last completed for 2003. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Cuyahoga County, real property taxes are billed semi-annually, one year in arrears. The tax rate applied to real property collected in 2004 before certain homestead and rollback reductions, which reductions are reimbursed to the School District by the State of Ohio, amounted to \$89.80 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$42.78 per \$1,000 of assessed valuation for residential and agricultural real property, and \$45.28 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2005 was \$89.80 per \$1,000 of valuation. The property valuation consisted of:

	<u>2005</u>	<u>2004</u>
Real Property		
Residential/Agricultural	\$ 688,719,680	\$ 686,130,410
Commercial/Industrial	89,845,870	156,501,950
Tangible Personal Property		
General	64,127,706	24,306,497
Public Utilities	<u>15,113,010</u>	<u>15,372,440</u>
Total	<u>\$ 857,806,266</u>	<u>\$ 882,311,297</u>

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the School District as an advance at June 30, 2005, was \$5,808,378 for all funds.

**Note 8 - Receivables**

Receivables at June 30, 2005, consisted of taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Restated Balance 6/30/04	Additions	Reductions	Balance 6/30/05
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 693,109	\$ 0	\$ 0	\$ 693,109
Construction in Progress	0	45,454	0	45,454
Capital Assets, not being depreciated:	693,109	45,454	0	738,563
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	16,285,710	12,275	(114,900)	16,183,085
Furniture and Equipment	4,880,156	488,023	0	5,368,179
Vehicles	2,519,302	361,409	0	2,880,711
Total Capital Assets, being depreciated	23,685,168	861,707	(114,900)	24,431,975
Less Accumulated Depreciation:				
Buildings and Improvements	(12,286,758)	(289,799)	4,308	(12,572,249)
Furniture and Equipment	(2,744,023)	(480,076)	0	(3,224,099)
Vehicles	(1,372,321)	(162,700)	0	(1,535,021)
Total Accumulated Depreciation	(16,403,102)	(932,575)	4,308	(17,331,369)
Total Capital Assets being depreciated, net	7,282,066	(70,868)	(110,592)	7,100,606
Governmental Activities Capital Assets, Net	<u>\$ 7,975,175</u>	<u>\$ (25,414)</u>	<u>\$ (110,592)</u>	<u>\$ 7,839,169</u>

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements  
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Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction:	
Regular	\$ 357,994
Special	2,541
Vocational	6,112
Support Services:	
Pupils	8,253
Instructional Staff	82,439
Business	10,898
Administration	28,215
Fiscal	4,930
Operation and Maintenance of Plant	51,519
Pupil Transportaion	166,838
Operation of Non-Instructional Services	44,794
Central	62,911
Extracurricular Activities	105,131
	<hr/>
Total Governmental Activities	\$ 932,575
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**Note 10 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees, and natural disasters. The School District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$5,000,000 in the aggregate.

The School District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The School District maintains replacement cost insurance on buildings and contents in the amount of \$87,899,660.

Settled claims have not exceeded coverage within the last three years. There has not been a significant reduction in coverage from the prior years.

***B. Workers' Compensation***

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the Ohio School Boards Associates (OSBA). The Executive Director of the OSBA, or his

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

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designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

#### **Note 11 - Other Employee Benefits**

##### ***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees whose established contractual year is 240 days or more earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers do not earn vacation time. Administrators employed to work 260 days per year earn twenty days of vacation annually. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Employee sick leave may be accumulated to a maximum number of days, classified employees have a maximum of 300 days, teachers and administrators have an unlimited number of days. Upon retirement, employees receive payment a percentage of their total sick leave accumulation, up to a maximum number of days. Classified employees receive twenty-five percent of their total sick leave accumulation to a maximum of 75 days, teachers receive twenty-five percent of their total sick leave accumulation to a maximum of 60 days, and administrators receive thirty percent of their total sick leave to a maximum of 86 days.

##### ***B. Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Anthem, in the amount of \$50,000 for all certified employees, \$20,000 for classified employees, and for administrators it is an amount equal to their salary with a minimum of \$50,000.

The School District provides health insurance coverage through Medical Mutual of Ohio and is subject to certain deductibles, co-pays, and maximum benefits as outlined in the plan. In order for employees to be eligible to receive health insurance coverage they must work at least twenty hours or more for classified employees and at least half-time for certified employees. Per negotiated agreement, the premium is paid based on full time equivalency. If an employee is not full time, the School District pays a pro-rated share of the premium.

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

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The School District provides dental coverage through Medical Mutual of Ohio and is also subject to certain deductibles, co-pays and maximum benefits as outlined in the plan. In order for employees to be eligible to receive dental coverage they must work at least twenty hours or more for classified employees and at least half-time for certified employees. Per negotiated agreement, the premium is paid based on full time equivalency. If an employee is not full time, the School District pays a pro-rated share of the premium.

The School District provides vision coverage through VSP and is also subject to certain deductibles, co-pays and maximum benefits as outlined in the plan. In order for employees to be eligible to receive vision coverage they must work at least twenty hours or more for classified and at least half time for certified employees. Per the negotiated agreement, the premium is paid based on full time equivalency. If an employee is not full time, the School District pays a pro-rated share of the premium.

#### **Note 12 - Pension Plans**

##### ***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability 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 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salaries and the School District is required to contribute at an actuarially determined rate which is currently 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,299,192, \$1,267,956, and \$1,194,252, respectively; 50% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$645,996 represents the unpaid contribution for fiscal year 2005, and is recorded as a liability within the respective funds.

##### ***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits and cost-of-living adjustments 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 43215-3371 or by calling (614) 227-4090.

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 members may retire after five years of service at age 60; 25 years of service at age 55; or 30 years of service regardless of age. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,824,908, \$3,183,612, and \$2,971,188, respectively; 83% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$26,233 made by the School District and \$46,978 made by the plan members. \$491,264 represents the unpaid contribution for fiscal year 2005, and is recorded as a liability within the respective funds.

### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System.

### **Note 13 - Postemployment Benefits**

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

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$197,637 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2005, the health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$454,159.

Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.



**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

**Note 14 - Long - Term Obligations**

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

	Outstanding 6/30/04	Additions	Reductions	Outstanding 6/30/05	Amounts Due in One Year
<b>Governmental Activities:</b>					
General Obligation Bonds:					
1993 Bond Issue 5.21%	\$ 6,200,000	\$ 0	\$ 290,000	\$ 5,910,000	\$ 305,000
1996 Bond Issue 5.37%	4,415,000	0	200,000	4,215,000	210,000
Total General Obligation Bonds	10,615,000	0	490,000	10,125,000	515,000
Compensated Absences	1,479,431	536,322	592,959	1,422,794	784,255
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 12,094,431</u>	<u>\$ 536,322</u>	<u>\$ 1,082,959</u>	<u>\$ 11,547,794</u>	<u>\$ 1,299,255</u>

Outstanding general obligation bonds consist of school building construction issues.

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from General Fund and Auxiliary Services, Food Service, Alternative School, and Title VI-B special revenue funds.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2006	\$ 515,000	\$ 561,585	\$ 1,076,585
2007	535,000	535,200	1,070,200
2008	560,000	505,465	1,065,465
2009	590,000	472,405	1,062,405
2010	625,000	437,485	1,062,485
2011 - 2015	3,665,000	1,592,235	5,257,235
2015 - 2019	3,635,000	432,048	4,067,048
Total	<u>\$ 10,125,000</u>	<u>\$ 4,536,423</u>	<u>\$ 14,661,423</u>

**Note 15 – Other Debt Obligations**

The \$1,750,000 note payable in the Capital Projects Fund is a bond anticipation note issued for the purpose of paying costs of installations, modifications, and remodeling of school buildings to conserve energy and acquiring school buses. The note has a stated interest rate of 2.40% and is due December 1, 2005.

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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#### **Note 16 – Jointly Governed Organizations**

The Lake-Shore North-East Ohio Computer Association (LNOCA) is a jointly governed organization among fourteen School Districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of the schools supports LNOCA based upon a per pupil charge dependent upon the software package utilized. The LNOCA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LNOCA is governed by a Board of Directors chosen from the general membership of the LNOCA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting LNOCA, 7800 Wall Street, Valley View, Ohio 44104.

The Ohio Schools' Council (Council) is a jointly governed organization among eighty-three school districts. This jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Governing Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2005, the School District paid \$800 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Council at 155 Center Road, Bedford, Ohio 44146.

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

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

The School District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 2001. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve-year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

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

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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**Note 17 – Joint Venture**

The South Euclid-Lyndhurst Recreation commission (SELREC) is a joint venture that is jointly owned and operated by the Cities of South Euclid and Lyndhurst, and the School District for the purpose of operating playgrounds, playing fields, and indoor recreation centers. Each of these governments supports SELREC through funds that are appropriated in their budgets.

The operation of SELREC is controlled by a nine member board consisting of the following: one member appointed by the mayor of the City of South Euclid and one member appointed by the mayor of the City of Lyndhurst, three members that are residents of the City of South Euclid, three members that are residents of the City of Lyndhurst, and one member that is a resident of the School District and that lives in either the City of South Euclid or the City of Lyndhurst (jointly appointed by the mayors of the Cities of South Euclid and Lyndhurst). The School District, the City of South Euclid, and the City of Lyndhurst have an ongoing financial responsibility because the continued existence of the joint venture depends on their contributions. The School District has no explicit and measurable equity interest in SELREC. Financial information may be obtained by contacting the Treasurer of the South Euclid-Lyndhurst City School District at 5044 Mayfield Road, Lyndhurst, Ohio 44124.

**Note 18 - Contractual Commitments**

As of June 30, 2005, the School District had contractual commitments for the following:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 6/30/05</u>
Henle Builders	<u>\$ 336,400</u>	<u>\$ 45,454</u>	<u>\$ 290,946</u>

**Note 19 – Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

**B. Litigation**

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

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 20 - Interfund Transfers**

Transfers made during fiscal year 2005 were as follows:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 540,750
Nonmajor Governmental Funds	540,750	0
Total	\$ 540,750	\$ 540,750

These transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

**Note 21 - Interfund Balances**

Interfund balances at June 30, 2005 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,400	\$ 0
Nonmajor Governmental Funds	0	1,400
	\$ 1,400	\$ 1,400

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2005, all interfund payables outstanding are anticipated to be repaid in fiscal year 2006.

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

**Note 22 - Set-Asides**

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

Effective April 10, 2001, Senate Bill 345, eliminated the requirement that School Districts establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the act.

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2004	\$ 534,738	\$ 0	\$ 0	\$ 534,738
Set-Aside Carryover Balance as of June 30, 2004	0	0	(1,050,509)	(1,050,509)
Current Year Set-Aside Requirement	0	669,662	669,662	1,339,324
Qualifying Disbursements	0	(2,223,441)	(578,873)	(2,802,314)
Total	<u>\$ 534,738</u>	<u>\$ (1,553,779)</u>	<u>\$ (959,720)</u>	<u>\$ (1,978,761)</u>
Cash Balance Carried Forward FY 2006	<u>\$ 534,738</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 534,738</u>
Amount for Set-Asides				<u>\$ 534,738</u>

The School District had qualifying disbursements during the year that reduced the capital improvements and textbook reserve set-asides below zero. These extra amounts may only be used to reduce the set-aside requirement of future years for the purchase of textbooks and/or instructional materials. Negatives are therefore not presented as being carried forward to the next fiscal year for the other set-asides. The total reserve balance for the set-asides at the end of the fiscal year was \$534,738.

**Note 23 – State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “the Ohio General Assembly to enact a school funding scheme that is thorough and efficient”.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT**  
 Schedule of Federal Awards Expenditures  
 For the Year Ended June 30, 2005

Federal Grantor/Program Title	Pass Through Entity Number	CFDA Number	Receipts Recognized	Program Expenditures
<u><i>U.S. Department of Agriculture</i></u>				
Passed Through the Ohio Department of Education				
Nutrition Cluster:				
Food Distribution	N/A	10.550	\$ 58,018	\$ 58,018
National School Breakfast Program	LLP4-2004	10.553	9,140	9,140
National School Lunch Program	PU-2005	10.555	<u>358,266</u>	<u>358,266</u>
Total Nutrition Cluster			<u>425,424</u>	<u>425,424</u>
Total U.S. Department of Agriculture			425,424	425,424
<u><i>U.S. Department of Education</i></u>				
Pass through Ohio Department of Education				
Special Education Cluster:				
Preschool Disabilities	PG-S1-04	84.173	-	8,044
Preschool Disabilities	PG-S1-04	84.173	43,516	35,187
Child Progress Indicator Grant	N/A	84.173	700	700
Title VI-B - IDEA-B	6B-SF-04	84.027	-	30,503
Title VI-B - IDEA-B	6B-SF-05	84.027	<u>924,246</u>	<u>817,999</u>
Total Special Education Cluster			968,462	892,433
Title I	C1-S1-04	84.010	-	1,900
Title I	C1-S1-05	84.010	<u>185,011</u>	<u>184,356</u>
Total Title I			185,011	186,256
Title II-A	TRS1-2004	84.367	-	7,132
Title II-A	TRS1-2005	84.367	<u>104,854</u>	<u>108,786</u>
Total Title II-A			104,854	115,918
Title II-D	TJS1-2004	84.318	504	2,965
Title II-D	TJS1-2005	84.318	<u>3,098</u>	<u>3,535</u>
Total Title II-D			3,602	6,500
Innovative Education Program Strategies	C2-S1-01	84.298	-	177
Innovative Education Program Strategies	C2-S1-04	84.298	-	21,311
Innovative Education Program Strategies	C2-S1-05	84.298	<u>23,355</u>	<u>25,193</u>
Total Innovative Education Program Strategies			23,355	46,681
Title IV (Drug Free Schools)	DR-S1-04	84.186	1,325	485
Title IV (Drug Free Schools)	DR-S1-05	84.186	<u>17,483</u>	<u>15,624</u>
Total IV (Drug Free Schools)			<u>18,808</u>	<u>16,109</u>
Total U.S. Department of Education			1,304,092	1,263,897
<u><i>U.S. Department of Health and Human Services</i></u>				
Pass Through Ohio Department of Mental Retardation and Developmental Disabilities				
Medicaid Title XIX	N/A	93.778	<u>326,381</u>	<u>326,381</u>
Total Medicaid Title XIX			<u>326,381</u>	<u>326,381</u>
Total U.S. Department of Health and Human Services			<u>326,381</u>	<u>326,381</u>
Total Federal Programs			<u>\$ 2,055,897</u>	<u>\$ 2,015,702</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

**SOUTH EUCLID - LYNDHURST CITY SCHOOL DISTRICT**  
**Notes to the Schedule of Federal Awards Expenditures**  
**For the Year Ended June 30, 2005**

**1. Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain expenditures are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

**2. Food Distribution**

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had commodities in inventory recorded in the Food Service Fund.

**INDEPENDENT ACCOUNTANT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board of Education  
South Euclid-Lyndhurst City School District  
Lyndhurst, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 14, 2006, wherein we noted the District implemented GASB Technical Bulletin No. 2004-2. 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 Controls Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that, we have reported to management of the South Euclid-Lyndhurst City School District in a separate letter dated July 14, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, 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 that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we reported to the management of the District in a separate letter dated July 14, 2006.



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

***Charles E. Harris & Associates, Inc.***  
**July 14, 2006**

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

Board of Education  
South Euclid-Lyndhurst City School District  
Lyndhurst, Ohio

**Compliance**

We have audited the compliance of the South Euclid-Lyndhurst City School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Charles E. Harris & Associates, Inc.*  
July 14, 2006

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505**

**SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
June 30, 2005**

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

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Nutrition Cluster: Food Distribution CFDA 10.550 Nat. Sch. Break Prog. CFDA 10.553 Nat. Sch. Lunch Prog. CFDA 10.555 Medicaid CFDA 93.778
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)**  
**OMB CIRCULAR A-133 SECTION .505**

**SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT**  
**CUYAHOGA COUNTY**  
**June 30, 2005**

**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.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ended June 30, 2004, reported no material citations or recommendations.



**Auditor of State  
Betty Montgomery**

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**SOUTH EUCLID LYNDHURST 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  
OCTOBER 19, 2006**