

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

AUDIT REPORT

For the Year Ended June 30, 2002

Charles E. Harris & Associates, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the South Euclid-Lyndhurst City School District, Cuyahoga County, prepared by Charles E. Harris & Associates, for the audit period July 1, 2001 through June 30, 2002. 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 black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 22, 2003

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SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT
AUDIT REPORT
For the Year Ended June 30, 2002

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying general purpose financial statements of the South Euclid-Lyndhurst City School District (the District), as of and for the year ended June 30, 2002 as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002 and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the South Euclid-Lyndhurst City School District taken as a whole. 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 general purpose financial statements. Such information as been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
December 6, 2002

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Combined Balance Sheet
All Fund Types and Account Groups

June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 1,538,634	\$ 1,043,565	\$ 334,329	\$ 619,002
Restricted Cash	534,739	0	0	0
Receivables:				
Taxes	36,369,923	0	1,120,398	2,084,929
Accounts	1,321	0	0	0
Interfund	7,400	0	0	0
Accrued Interest	0	575	0	0
Intergovernmental	316,227	8,029	0	0
Inventory	24,377	0	0	0
Fixed Assets (Net)	0	0	0	0
Total Assets	38,792,621	1,052,169	1,454,727	2,703,931
Other Debits				
Amount Available In Debt Service	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Other Debits	0	0	0	0
Total Assets and Other Debits	\$ 38,792,621	\$ 1,052,169	\$ 1,454,727	\$ 2,703,931
Liabilities, Fund Equity, and Other Credits				
Liabilities				
Accounts Payable	\$ 219,731	\$ 55,140	\$ 0	\$ 150,906
Accrued Wages and Benefits	2,218,761	44,457	0	0
Compensated Absences Payable	0	0	0	0
Interfund Payable	0	5,800	0	0
Intergovernmental Payable	1,018,811	27,665	0	0
Deferred Revenue	28,423,215	5,735	875,595	1,629,379
Undistributed Monies	0	0	0	0
Notes Payable	0	0	0	2,250,000
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	31,880,518	138,797	875,595	4,030,285
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	453,631	122,339	0	42,418
Reserved for Inventory	24,377	0	0	0
Reserved for Budget Stabilization	534,739	0	0	0
Reserved for Property Taxes	7,946,708	0	244,803	455,550
Unreserved:				
Undesignated	(2,047,352)	791,033	334,329	(1,824,322)
Total Fund Equity (Deficit), and Other Credits	6,912,103	913,372	579,132	(1,326,354)
Total Liabilities, Fund Equity, and Other Credits	\$ 38,792,621	\$ 1,052,169	\$ 1,454,727	\$ 2,703,931

See accompanying notes to the general purpose financial statements.

Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Totals
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations		(Memorandum Only)
\$ 88,512	\$ 29,819	\$ 614,571	\$ 0	\$ 0		4,268,432
0	0	0				534,739
0	0	0	0	0		39,575,250
38,580	0	664	0	0		40,565
0	0	0	0	0		7,400
0	0	654	0	0		1,229
24,181	0	0	0	0		348,437
21,332	0	0	0	0		45,709
172,196	0	0	32,314,111	0		32,486,307
<u>344,801</u>	<u>29,819</u>	<u>615,889</u>	<u>32,314,111</u>	<u>0</u>		<u>77,308,068</u>
0	0	0	0	579,132		579,132
0	0	0	0	12,803,201		12,803,201
0	0	0	0	13,382,333		13,382,333
<u>\$ 344,801</u>	<u>\$ 29,819</u>	<u>\$ 615,889</u>	<u>\$ 32,314,111</u>	<u>\$ 13,382,333</u>		<u>\$ 90,690,401</u>
\$ 48,819	\$ 1,427	\$ 36,585	\$ 0	\$ 0		512,608
2,258	0	7,759	0	0		2,273,235
5,662	0	0	0	1,288,591		1,294,253
0	850	750	0	0		7,400
15,478	0	979	0	438,742		1,501,675
7,552	0	0	0	0		30,941,476
0	0	566,137	0	0		566,137
0	0	0	0	0		2,250,000
0	0	0	0	11,655,000		11,655,000
<u>79,769</u>	<u>2,277</u>	<u>612,210</u>	<u>0</u>	<u>13,382,333</u>		<u>51,001,784</u>
0	0	0	32,314,111	0		32,314,111
265,032	27,542	0	0	0		292,574
0	0	213	0	0		618,601
0	0	0	0	0		24,377
0	0	0	0	0		534,739
0	0	0	0	0		8,647,061
0	0	3,466	0	0		(2,742,846)
<u>265,032</u>	<u>27,542</u>	<u>3,679</u>	<u>32,314,111</u>	<u>0</u>		<u>39,688,617</u>
<u>\$ 344,801</u>	<u>\$ 29,819</u>	<u>\$ 615,889</u>	<u>\$ 32,314,111</u>	<u>\$ 13,382,333</u>		<u>\$ 90,690,401</u>

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances*

All Governmental Fund Types and Expendable Trust Funds

For the Year Ended June 30, 2002

Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
Revenues				
Taxes	\$ 36,063,782	\$ 0	\$ 1,160,016	\$ 1,302,476
Intergovernmental	10,328,559	2,220,978	141,151	121,367
Investment Income	206,236	7,964	0	0
Tuition and Fees	1,606,319	222,104	0	0
Extracurricular Activities	0	91,407	0	0
Rentals	344,000	0	0	0
Donations	0	0	0	0
Miscellaneous	234,550	193,522	0	0
Total Revenues	48,783,446	2,735,975	1,301,167	1,423,843
Expenditures				
Current:				
Instruction				
Regular	17,880,508	688,681	0	8,730
Special	4,480,166	413,460	0	0
Vocational	920,875	0	0	0
Other	372,863	0	0	0
Support Services:				
Pupils	2,447,733	42,650	0	0
Instructional Staff	1,640,343	178,697	0	0
Board of Education	71,658	4,880	0	0
Administration	2,900,378	183,931	0	0
Fiscal	1,114,458	0	0	0
Business	440,124	0	0	0
Operation and Maintenance of Plant	6,396,116	28,386	0	98,100
Pupil Transportation	2,188,893	0	0	160,017
Central	889,573	138,259	0	534,572
Operation of Non-Instructional Services				
Community Services	41,582	1,074,190	0	0
Extracurricular Activities	624,327	140,205	0	0
Capital Outlay	106,294	45,818	0	906,185
Debt Service:				
Principal Retirement	0	0	550,000	0
Interest and Fiscal Charges	0	0	659,969	96,731
Total Expenditures	42,515,891	2,939,157	1,209,969	1,804,335
Excess of Revenues Over (Under) Expenditures	6,267,555	(203,182)	91,198	(380,492)
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	10,332	0	0	0
Operating Transfers In	0	99,250	0	0
Operating Transfers Out	(301,400)	0	0	0
Total Other Financing Sources (Uses)	(291,068)	99,250	0	0
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	5,976,487	(103,932)	91,198	(380,492)
Fund Balance (Deficit) at Beginning Of Year	935,616	1,017,304	487,934	(945,862)
Fund Balance (Deficit) at End of Year	\$ 6,912,103	\$ 913,372	\$ 579,132	\$ (1,326,354)

See accompanying notes to the general purpose financial statements.

Fiduciary Fund Type		Totals (Memorandum Only)
Expendable Trust		
\$	0	\$ 38,526,274
	0	12,812,055
	0	214,200
	0	1,828,423
	0	91,407
	0	344,000
	1,524	1,524
	0	428,072
	<u>1,524</u>	<u>54,245,955</u>

	1,741	18,579,660
	0	4,893,626
	0	920,875
	0	372,863
	0	2,490,383
	0	1,819,040
	0	76,538
	312	3,084,621
	0	1,114,458
	0	440,124
	0	6,522,602
	0	2,348,910
	0	1,562,404
	450	1,116,222
	0	764,532
	0	1,058,297
	0	
	0	550,000
	0	756,700
	<u>2,503</u>	<u>48,471,855</u>

	(979)	5,774,100
	0	10,332
	0	99,250
	0	(301,400)
	<u>0</u>	<u>(191,818)</u>

	(979)	5,582,282
	<u>4,658</u>	<u>1,499,650</u>
\$	<u>3,679</u>	\$ <u>7,081,932</u>

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual*

All Governmental Fund Types and Expendable Trust Funds
(Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2002

GENERAL FUND			
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 30,608,584	\$ 30,633,423	\$ 24,839
Intergovernmental	10,270,887	10,270,887	0
Investment Income	206,236	206,236	0
Tuition and Fees	1,252,451	1,294,355	41,904
Extracurricular Activities	0	0	0
Rentals	344,053	344,053	0
Donations	0	0	0
Miscellaneous	308,614	311,506	2,892
Total Revenue	42,990,825	43,060,460	69,635
Expenditures			
Current:			
Instruction	24,310,527	24,269,991	40,536
Support Services:			
Pupils	2,498,460	2,491,645	6,815
Instructional Staff	1,772,487	1,765,315	7,172
Board of Education	120,292	116,482	3,810
Administration	2,884,130	2,880,030	4,100
Fiscal	1,104,268	1,091,500	12,768
Business	460,177	455,858	4,319
Operation and Maintenance of Plant	6,485,814	6,479,549	6,265
Pupil Transportation	2,268,054	2,252,769	15,285
Central	977,961	974,254	3,707
Operation of Non-Instructional Services	0	0	0
Community Services	41,600	41,582	18
Extracurricular Activities	638,207	633,456	4,751
Capital Outlay	106,500	106,294	206
Debt Service:	0	0	0
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	43,668,477	43,558,725	109,752
Excess of Revenues Over (Under) Expenditures	(677,652)	(498,265)	179,387
Other Financing Sources (Uses)			
Proceeds from Sale of Fixed Assets	5,865	6,332	467
Proceeds from Sale of Notes	0	0	0
Refund of Prior Year Expenditures	11,329	22,285	10,956
Refund of Prior Year Receipts	0	0	0
Other Financing Sources	0	0	0
Advances In	246,250	246,250	0
Advances Out	(7,500)	(7,400)	100
Operating Transfers In	0	0	0
Operating Transfers Out	(302,000)	(301,400)	600
Total Other Financing Sources (Uses)	(46,056)	(33,933)	12,123
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(723,708)	(532,198)	191,510
Fund Balance (Deficit) at Beginning of Year	1,177,055	1,177,055	0
Prior Year Encumbrances Appropriated	631,642	631,642	0
Fund Balance (Deficit) at End of Year	\$ 1,084,989	\$ 1,276,499	\$ 191,510

SPECIAL REVENUE FUND			DEBT SERVICE FUND		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 996,892	\$ 997,300	\$ 408
2,197,280	2,225,730	28,450	141,151	141,151	0
7,389	7,389	0	0	0	0
178,668	179,112	444	0	0	0
92,727	91,407	(1,320)	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
281,507	283,948	2,441	0	0	0
2,757,571	2,787,586	30,015	1,138,043	1,138,451	408
1,512,264	1,200,220	312,044	0	0	0
64,652	48,170	16,482	0	0	0
445,171	180,365	264,806	0	0	0
4,880	4,880	0	0	0	0
205,032	170,712	34,320	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
55,998	30,998	25,000	0	0	0
1,425	0	1,425	0	0	0
154,502	139,461	15,041	0	0	0
0	0	0	0	0	0
1,373,066	1,227,674	145,392	0	0	0
164,979	158,152	6,827	0	0	0
90,930	89,519	1,411	0	0	0
0	0	0	0	0	0
0	0	0	550,000	550,000	0
0	0	0	925,847	659,969	265,878
4,072,899	3,250,151	822,748	1,475,847	1,209,969	265,878
(1,315,328)	(462,565)	852,763	(337,804)	(71,518)	266,286
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(47,426)	(47,426)	0	0	0	0
(8)	(8)	0	0	0	0
5,800	5,800	0	0	0	0
(157,850)	(156,700)	1,150	0	0	0
99,250	99,250	0	0	0	0
0	0	0	0	0	0
(100,234)	(99,084)	1,150	0	0	0
(1,415,562)	(561,649)	853,913	(337,804)	(71,518)	266,286
1,091,833	1,091,833	0	405,847	405,847	0
344,741	344,741	0	0	0	0
\$ 21,012	\$ 874,925	\$ 853,913	\$ 68,043	\$ 334,329	\$ 266,286

(continued)

SOUTH EUCLID-LYNTHURST CITY SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
All Governmental Fund Types and Expendable Trust Funds
(Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2002

	CAPITAL PROJECTS FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 923,095	\$ 923,848	\$ 753
Intergovernmental	121,367	121,367	0
Investment Income	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Rentals	0	0	0
Donations	0	0	0
Miscellaneous	0	0	0
Total Revenue	1,044,462	1,045,215	753
Expenditures			
Current:			
Instruction	9,725	8,730	995
Support Services:			
Pupils	0	0	0
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	8,700	8,696	4
Fiscal	0	0	0
Business	0	0	0
Operation and Maintenance of Plant	81,200	80,995	205
Pupil Transportation	160,100	160,017	83
Central	547,051	534,572	12,479
Operation of Non-Instructional Services	0	0	0
Community Services	19,100	19,080	20
Extracurricular Activities	0	0	0
Capital Outlay	1,276,878	943,651	333,227
Debt Service:			
Principal Retirement	2,500,000	2,500,000	0
Interest and Fiscal Charges	96,731	96,731	0
Total Expenditures	4,699,485	4,352,472	347,013
Excess of Revenues Over (Under) Expenditures	(3,655,023)	(3,307,257)	347,766
Other Financing Sources (Uses)			
Proceeds from Sale of Fixed Assets	0	0	0
Proceeds from Sale of Notes	2,250,000	2,250,000	0
Refund of Prior Year Expenditures	0	0	0
Refund of Prior Year Receipts	0	0	0
Other Financing Sources	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
Total Other Financing Sources (Uses)	2,250,000	2,250,000	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,405,023)	(1,057,257)	347,766
Fund Balance (Deficit) at Beginning of Year	1,356,527	1,356,527	0
Prior Year Encumbrances Appropriated	173,957	173,957	0
Fund Balance (Deficit) at End of Year	\$ 125,461	\$ 473,227	\$ 347,766

EXPENDABLE TRUST FUNDS			TOTALS (MEMORANDUM ONLY)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 32,528,571	\$ 32,554,571	\$ 26,000
0	0	0	12,730,685	12,759,135	28,450
0	0	0	213,625	213,625	0
0	0	0	1,431,119	1,473,467	42,348
0	0	0	92,727	91,407	(1,320)
0	0	0	344,053	344,053	0
31,317	1,524	(29,793)	31,317	1,524	(29,793)
0	0	0	590,121	595,454	5,333
31,317	1,524	(29,793)	47,962,218	48,033,236	71,018
4,642	1,954	2,688	25,837,158	25,480,895	356,263
0	0	0	2,563,112	2,539,815	23,297
29,333	0	29,333	2,246,991	1,945,680	301,311
0	0	0	125,172	121,362	3,810
1,041	312	729	3,098,903	3,059,750	39,153
0	0	0	1,104,268	1,091,500	12,768
0	0	0	460,177	455,858	4,319
0	0	0	6,623,012	6,591,542	31,470
0	0	0	2,429,579	2,412,786	16,793
0	0	0	1,679,514	1,648,287	31,227
0	0	0	1,434,216	1,288,786	145,430
450	450	0	803,186	791,608	11,578
0	0	0	1,474,308	1,139,464	334,844
0	0	0	3,050,000	3,050,000	0
0	0	0	1,022,578	756,700	265,878
35,466	2,716	32,750	53,952,174	52,374,033	1,578,141
(4,149)	(1,192)	2,957	(5,989,956)	(4,340,797)	1,649,159
0	0	0	5,865	6,332	467
0	0	0	2,250,000	2,250,000	0
0	0	0	11,329	22,285	10,956
0	0	0	(47,426)	(47,426)	0
0	0	0	(8)	(8)	0
0	0	0	252,050	252,050	0
(150)	(150)	0	(165,500)	(164,250)	1,250
0	0	0	99,250	99,250	0
0	0	0	(302,000)	(301,400)	600
(150)	(150)	0	2,103,560	2,116,833	13,273
(4,299)	(1,342)	2,957	(3,886,396)	(2,223,964)	1,662,432
4,509	4,509	0	4,035,771	4,035,771	0
300	300	0	1,150,640	1,150,640	0
\$ 510	\$ 3,467	\$ 2,957	\$ 1,300,015	\$ 2,962,447	\$ 1,662,432

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

*Combined Statement of Revenues,
Expenses, and Changes in Retained Earnings
All Proprietary Fund Types*

For the Year Ended June 30, 2002

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
<u>Operating Revenues</u>			
Tuition	\$ 117,195	\$ 0	\$ 117,195
Sales	869,631	0	869,631
Service Fees	0	112,096	112,096
Total Operating Revenues	986,826	112,096	1,098,922
<u>Operating Expenses</u>			
Salaries	456,298	0	456,298
Fringe Benefits	183,772	0	183,772
Purchased Services	656,982	124,047	781,029
Materials and Supplies	117,358	3,279	120,637
Depreciation	35,301	0	35,301
Total Operating Expenses	1,449,711	127,326	1,577,037
Operating Income (Loss)	(462,885)	(15,230)	(478,115)
<u>Non-Operating Revenues (Expenses)</u>			
Operating Grants	211,406	0	211,406
Donated Commodities	50,119	0	50,119
Other Non-Operating Revenue	49,660	0	49,660
Interest	171	0	171
Total Non-Operating Revenues (Expenses)	311,356	0	311,356
Income/Loss before transfers	(151,529)	(15,230)	(166,759)
Transfers In	213,576	0	213,576
Transfers Out	(24,976)	0	(24,976)
Net income (loss)	37,071	(15,230)	21,841
Retained Earnings at Beginning of Year	227,961	42,772	270,733
Total Retained Earnings at End of Year	\$ 265,032	\$ 27,542	\$ 292,574

See accompanying notes to the general purpose financial statements.

SOUTH EUCLID-LYNDHURST CITY SCHOOLS

Combined Statement of Cash Flows

All Proprietary Fund Types

For the Year Ended June 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
<u>Cash Flows From Operating Activities</u>			
Cash Received from Customers	\$ 925,621	\$ 0	\$ 925,621
Cash Received from Quasi-External Transactions			
With Other Funds	0	112,096	112,096
Cash Paid for Goods and Services	(803,360)	(2,702)	(806,062)
Cash Paid to Employees	(637,170)	0	(637,170)
Cash Paid for Claims	0	(124,047)	(124,047)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>(514,909)</u>	<u>(14,653)</u>	<u>(529,562)</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Grants	211,406	0	211,406
Other Non-Operating Revenue	49,660	0	49,660
Net Operating Transfers	188,600	0	188,600
<i>Net Cash Provided By (Used For) Non-Capital Activities</i>	<u>449,666</u>	<u>0</u>	<u>449,666</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Purchase of Property	(1,629)	0	(1,629)
<i>Net Cash Provided By (Used For) Capital Activities</i>	<u>(1,629)</u>	<u>0</u>	<u>(1,629)</u>
<u>Cash Flows From Investing Activities</u>			
Investment Earnings	171	0	171
<i>Net Cash Provided By (Used For) Investing Activities</i>	<u>171</u>	<u>0</u>	<u>171</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(66,701)	(14,653)	(81,354)
Cash and Cash Equivalents at Beginning of Year	155,213	44,472	199,685
Cash and Cash Equivalents at End of Year	<u>\$ 88,512</u>	<u>\$ 29,819</u>	<u>\$ 118,331</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities

Operating Income (Loss)	\$ (462,885)	\$ (15,230)	\$ (478,115)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:			
Depreciation	35,301	0	35,301
Donated Commodities	50,119	0	50,119
(Increase) Decrease in Assets			
Accounts Receivable	(38,580)	0	(38,580)
Due from Other Governments	(24,181)	0	(24,181)
Inventory	(7,640)	0	(7,640)
Increase (Decrease) in Liabilities			
Accounts Payable	3,027	1,427	4,454
Accrued Wages and Benefits	(1,641)	0	(1,641)
Compensated Absences	4,541	0	4,541
Inergovernmental Payable	(2,526)	0	(2,526)
Interfund Payable	(72,000)	(850)	(72,850)
Deferred Revenue	1,556	0	1,556
Total Adjustments	<u>(52,024)</u>	<u>577</u>	<u>(51,447)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ (514,909)</u>	<u>\$ (14,653)</u>	<u>\$ (529,562)</u>

Noncash Non-Capital Financing Activities:

During fiscal year ended June 30, 2002, the District received and used \$50,119 of federal donated commodities.

See accompanying notes to the general purpose financial statements.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

NOTE 1 - NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The South Euclid-Lyndhurst City School District (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 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 District's instructional/support facilities which are staffed by 236 classified and 364 certificated personnel who provide services to 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 District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District, which includes general operations, food service, and student related activities of the District.

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

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

Cities of South Euclid and Lyndhurst The city governments are separate body politic and corporate. City officials are elected independent of any 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 District is not involved in the budgeting or management and is not responsible for any debt and has no influence over the organization.

The District is associated with two jointly governed organizations, one joint venture, and one public entity risk pool. These organizations are discussed in Note 12, Note 13, and Note 15 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:
Lakeshore Northeast Ohio Computer Association (LNOCA)
Ohio Schools Council

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

Joint Venture:

South Euclid-Lyndhurst Recreation Commission (SELREC)

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

(A) **FUND DEFICITS**

Fund Balances/Retained Earnings at June 30, 2002 included the following individual fund deficits:

	Deficit <u>Fund Balance</u>
<i>Capital Projects Fund</i>	\$ (1,326,354)

The above fund and account deficit was caused by the recognition of notes payable on the modified accrual basis of accounting.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION**

The accounts of the District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The District has the following fund types and account groups:

GOVERNMENTAL FUND TYPES

Governmental fund types are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and received 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. For the School District, available means expected to be received within sixty days of fiscal year end.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

Non-exchange transactions, in which the School District received 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 taxes are levied, (see Note 8). Revenue from grants 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 non-exchange 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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue.

Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue

Expenditures - Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, since the measurement focus of governmental funds is on decreases in financial resources. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payment to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

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

Special Revenue Funds - used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund - used to account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt other than those payable from proprietary funds.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

Capital Projects Fund - used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds.

PROPRIETARY FUND TYPES

Proprietary fund types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Unused donated commodities are reported as deferred revenue. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the Board has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 in its accounting and reporting practices for its proprietary operations unless they contradict/conflict with GASB pronouncements. Proprietary funds include the following fund types:

Enterprise Funds - used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Fiduciary fund types account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Expendable Trust Fund - accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

Agency Fund - custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

ACCOUNT GROUPS

The District maintains two account groups as described below:

General Fixed Assets Account Group - used to account for fixed assets acquired for general purposes other than those accounted for in proprietary or trust funds.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

General Long-term Obligations Account Group - used to account for the outstanding principal balances of general obligation bonds, debt and other long-term obligations not reported in proprietary funds.

(B) *DEPOSITS AND INVESTMENTS*

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

During fiscal year 2002, investments were limited to STAROhio, money market accounts, and repurchase agreements.

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

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, 2002.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered to be investments.

(C) *RESTRICTED ASSETS*

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish reserves for the textbook, capital improvements, and budget set-asides. The textbook and capital improvement reserves are required by State statute. The budget set-aside is reserved for the refund from Bureau of Workers' Compensation. Fund balance reserves have also been established.

(D) *RECEIVABLES*

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

(E) *INVENTORIES AND SUPPLIES*

The costs of inventory items are recognized as expenditures when purchased in the governmental funds and recognized as expenses when used in the enterprise funds. For all funds, cost is determined on a first-in, first-out basis.

Reported inventories in the governmental fund types are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

(F) *FIXED ASSETS AND DEPRECIATION*

Fixed assets used in governmental fund types of the District are recorded in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the General Fixed Assets Account Group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets. The District does not possess any infrastructure.

Fixed assets which are used in proprietary fund type activities are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received. Depreciation is computed using the straight-line method based on the estimated life of 10 years.

(G) *UNPAID COMPENSATED ABSENCES*

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

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 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 District's termination policy. The District records a liability for accumulated unused sick leave for employees after 20 years of current service with the District and attaining the age of 40.

For governmental funds, these amounts are recorded in the account "Compensated Absences Payable" in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

(H) *LONG-TERM LIABILITIES*

Unmatured general long-term liabilities, which are related to governmental fund type operations, are reflected in the General Long-Term Obligations Account Group until due.

(I) *INTERFUND TRANSACTIONS*

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. During the 2002 fiscal year, the District had the following transfer transactions:

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

	Transfers <u>In</u>	Transfers <u>Out</u>
General Fund	\$ 0	\$ 301,400
Special Revenue	99,250	0
Enterprise Funds	213,576	24,976
Agency Funds	<u>13,856</u>	<u>306</u>
Totals	<u>\$ 326,682</u>	<u>\$ 326,682</u>

“Advances in” do not equal “Advances out” due to Proprietary fund budgetary activity not being reflected in the accompanying financial statements.

(J) *FUND EQUITY*

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amounts that have been legally identified for specific purposes. Fund equity reserves are established for encumbrances, inventory, debt, budget stabilization, and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. Unreserved retained earnings for proprietary funds represent the net assets available for future operations.

(K) *TOTAL COLUMNS*

Total columns on the general purpose financial statements are captioned “Totals (Memorandum Only)” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

(L) *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.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

NOTE 4 – RESTATEMENT OF PRIOR YEAR BALANCES

During 2002 it was determined that accrued wages were overstated in the prior year. These changes had the following effect on fund balances as they were previously reported as of June 30, 2001.

	<u>General</u>	<u>Special Revenue</u>
Fund Balance at June 30, 2001	\$ 482,610	\$ 999,835
Accrued Wage Adjustment	<u>453,006</u>	<u>17,469</u>
Restated Fund Balance at June 30, 2001	<u>\$ 935,616</u>	<u>\$ 1,017,304</u>

NOTE 5 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

(A) **BUDGETARY PROCESS**

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

All funds, other than agency funds, are required to be budgeted and appropriated. Throughout the fiscal year, the primary level of budgetary control was at the object code within function level within the General Fund. For all other funds, the legal level of control was at the fund level. Budgetary modifications may only be made by resolution of the Board of Education.

(B) **BUDGETARY BASIS**

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds.

Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying “Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types and Expendable Trust Funds (Non-GAAP Budgetary Basis)” do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriation.

Appropriations

A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

Several supplemental appropriation resolutions were legally enacted by the Board during the year. The budget figures, as shown in the accompanying “Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types and Expendable Trust Funds (Non-GAAP Budgetary Basis)” represent the final appropriation amounts including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits the sum of expenditures and encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balance for subsequent-year expenditures.

Lapsing of Appropriations

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

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

Budgetary Reporting

While the 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 “Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types and Expendable Trust Funds (Non-GAAP Budgetary 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 and as note disclosures in the proprietary fund types (GAAP basis).
- 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 adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds and Expendable Trust Fund follow:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Expendable Trust Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Budget Basis	\$ (532,198)	\$ (561,649)	\$ (71,518)	\$ (1,057,257)	\$ (1,342)
Adjustments, increase (decrease)					
Revenue accruals	5,458,452	(57,403)	162,716	(1,871,372)	0
Expenditures accruals	468,985	339,141	0	2,402,363	150
Encumbrances	<u>581,248</u>	<u>175,979</u>	<u>0</u>	<u>145,774</u>	<u>213</u>
GAAP basis	\$ <u>5,976,487</u>	\$ <u>(103,932)</u>	\$ <u>91,198</u>	\$ <u>(380,492)</u>	\$ <u>(979)</u>

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

NOTE 6 - DEPOSITS AND INVESTMENTS

(A) *LEGAL REQUIREMENTS*

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

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

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

Interim deposits are 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 can 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 exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding 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);
-

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred and eighty days 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 rating classifications by at least two nationally recognized rating agencies.

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

(B) *DEPOSITS*

At fiscal year-end the carrying amount of the District's deposits was \$(831,650) and the bank balance was \$70,467, all of which was covered by federal depository insurance. The large negative carrying balance is due to a controlled disbursement checking account which enables the District to invest the maximum amount of money.

(C) *INVESTMENTS*

The District's investments are categorized below to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

	<u>Fair</u>
	<u>Value</u>
Unclassified Investment:	
Investment in State	
Treasurer's Investment Pool	\$ <u>5,634,821</u>

Statutory provisions require that all securities acquired by the District be held by the District treasurer or deposited with a qualified trustee. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterparty is a designated depository of the District for the current period of designation of depositories, in which case the securities may be held in trust by the depository.

NOTE 7 - FIXED ASSETS AND ACCUMULATED DEPRECIATION

(A) *GENERAL FIXED ASSETS ACCOUNT GROUP*

The changes in general fixed assets during the year consisted of:

	<u>Balance</u> <u>7/1/2001</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2002</u>
Land	\$ 1,308,154	\$ 0	\$ 0	\$ 1,308,154
Buildings and Improvements	17,886,704	1,163,973	0	19,050,677
Furniture and Equipment	8,985,195	635,786	0	9,620,981
Vehicles	<u>2,173,182</u>	<u>161,117</u>	<u>0</u>	<u>2,334,299</u>
	<u>\$ 30,353,235</u>	<u>\$ 1,960,876</u>	<u>\$ 0</u>	<u>\$ 32,314,111</u>

(B) *PROPRIETARY FUND TYPE FIXED ASSETS*

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

<u>Enterprise</u>	<u>Balance</u> <u>June 30, 2002</u>
Equipment	\$ 600,732
Less: accumulated depreciation	<u>(428,536)</u>
Net fixed assets	<u>\$ 172,196</u>

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

NOTE 8 - DEBT OBLIGATIONS

The \$2,250,000 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 2.10% and is due February 7, 2003.

General long term obligations consist of the following:

	<u>Outstanding June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2002</u>
General Obligation Bonds				
HB264 Note issued 11/92 at 4.9426% due 12/1/2002	\$ 255,000	\$ 0	\$ 255,000	\$ 0
1993 Bond Issue 5.21% due 12/1/2018	6,995,000	0	125,000	6,870,000
1996 Bond Issue 6.11% due 12/1/2018	<u>4,955,000</u>	<u>0</u>	<u>170,000</u>	<u>4,785,000</u>
Bonds Payable	12,205,000	0	550,000	11,655,000
Compensated Absences				
Accrued vacations	205,919	218,588	205,919	218,588
Accrued sick leave benefits	<u>970,904</u>	<u>99,099</u>	<u>0</u>	<u>1,070,003</u>
Compensated Absences	1,176,823	317,687	205,919	1,288,591
Intergovernmental Payables				
Accrued SERS/STRS	323,278	385,906	323,278	385,906
SERS Surcharge	<u>52,742</u>	<u>52,836</u>	<u>52,742</u>	<u>52,836</u>
Intergovernmental Payables	<u>376,020</u>	<u>438,742</u>	<u>376,020</u>	<u>438,742</u>
	<u>\$ 13,757,843</u>	<u>\$ 756,429</u>	<u>\$ 1,131,939</u>	<u>\$ 13,382,333</u>

Outstanding general obligation bonds consist of school building construction issues. The current year activity for compensated absences is netted for practical purposes.

General obligation bonds are direct obligations of the District for which it's full faith, credit, and resources are pledged and are payable from taxes levied on all taxable property in the District.

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

Principal and interest requirements to retire long-term notes and bonds outstanding are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2003	\$ 575,000	\$ 633,474
2004	465,000	608,820
2005	490,000	586,112
2006	515,000	561,585
2007	535,000	535,200
Thereafter	<u>9,075,000</u>	<u>3,439,638</u>
Total	<u>\$ 11,655,000</u>	<u>\$ 6,364,829</u>

The Board approved an Early Retirement Incentive Program for certified employees. Participation was open to employees who were at least fifty years old, qualified for retirement with the years purchased by the Board, and agreed to retire within ninety days after notification that credit had been purchased. The credit could not exceed the lesser of two years or one fifth of each member's total Ohio service. The Board did not limit the number of employees participating in the plan in any one year. The District has a Retirement Incentive Program for classified employees, which awards a bonus payment for those meeting the criteria who elect to retire.

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. The Cuyahoga County Auditor is responsible for assessing and remitting these property taxes to the 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 2000. 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 2001 before certain homestead and rollback reductions, which reductions are reimbursed to the 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 \$46.63 per \$1,000 of assessed valuation for residential and agricultural real property, and \$50.75 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, 2001 was \$89.80 per \$1,000 of valuation.

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

The property valuation consisted of:

	<u>2001</u>	<u>2000</u>
Real Property		
Residential/Agricultural	\$ 621,045,380	\$ 621,059,890
Commercial/Industrial	143,282,210	141,653,730
Tangible Personal Property		
General	29,859,444	27,259,014
Public Utilities	<u>15,535,810</u>	<u>19,889,450</u>
Total	<u>\$ 809,722,844</u>	<u>\$ 809,862,084</u>

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2002. 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 District as an advance at June 30, 2002, was \$8,647,061 for all funds.

NOTE 10 - PENSION PLANS

(A) **SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer public employee retirement 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determine rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$1,064,964, \$924,930, and, \$847,680, respectively; 46 percent has been contributed for fiscal year 20021 and 100 percent for fiscal years 2001 and 2000. The amount representing the unpaid contribution for fiscal year 2002, \$579,492 is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

(B) *STATE TEACHERS RETIREMENT SYSTEM (STRS)*

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement system by the State of Ohio. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and South Euclid-Lyndhurst City School District is required to contribute at an actuarially determine rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and the School District are established and may be amended by the STRS Board of Trustees. The School District's contributions for pension obligations to STRS for the years ended June 30, 2002, 2001 and 2000 were \$2,936,424, \$2,558,424, and, \$2,494,188, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The amount representing the unpaid contribution for fiscal year 2002, \$499,508 is recorded as a liability within the respective funds.

NOTE 11 - POSTEMPLOYMENT BENEFITS

(A) *SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)*

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients.

Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2001, (the latest information available) the allocation rate was 9.80%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established as \$12,400.

Health care benefits are financed on a pay-as-you-go basis.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits was \$315.7 million, at cost. The number of participants currently receiving health care benefits is approximately 50,000. The portion of employer contributions that were used to fund postemployment benefits including surcharge was \$812,403.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

(B) *STATE TEACHERS RETIREMENT SYSTEM (STRS)*

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipient and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

Health care benefits are financed on a pay-as-you-go basis.

The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll.

The Board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the year ended June 30, 2001, the net health care costs paid by STRS were \$300,772,000. There were 102,132 eligible benefit recipients.

The portion of employer contributions that were used to fund post employment benefits was \$943,851.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT*Notes to the General Purpose Financial Statements*

For the Year Ended June 30, 2002

NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains enterprise funds to account for the operation of school food service, uniform school supplies, and Adult Education. Segment information related to these follows:

	<u>Food Services</u>	<u>Uniform Supplies</u>	<u>Adult Ed</u>	<u>Total</u>
Operating revenues	\$ <u>852,163</u>	<u>17,468</u>	<u>117,195</u>	\$ <u>986,826</u>
Operating expenses				
Salaries	357,604	0	98,694	456,298
Fringe benefits	152,243	0	31,529	183,772
Purchased services	653,243	0	3,739	656,982
Materials and supplies	44,357	15,505	51,678	111,540
Depreciation	<u>35,301</u>	<u>0</u>	<u>0</u>	<u>35,301</u>
Total operating expenses	<u>1,242,748</u>	<u>15,505</u>	<u>185,640</u>	<u>1,443,893</u>
Operating income (loss)	(390,585)	1,963	(68,445)	(457,067)
Non-operating revenues, net	249,043	0	56,495	305,538
Net transfers	<u>158,000</u>	<u>0</u>	<u>30,600</u>	<u>188,600</u>
Net income (loss)	<u>\$ 16,458</u>	<u>\$ 1,963</u>	<u>\$ 18,650</u>	<u>\$ 37,071</u>
Other information				
Net working capital	<u>\$ (31,343)</u>	<u>\$ 9,266</u>	<u>\$ 114,913</u>	<u>\$ 92,836</u>
Fixed assets, net	<u>\$ 172,196</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 172,196</u>
Total assets	<u>\$ 220,622</u>	<u>\$ 9,266</u>	<u>\$ 114,913</u>	<u>\$ 344,801</u>
Total equity	<u>\$ 135,820</u>	<u>\$ 9,266</u>	<u>\$ 119,946</u>	<u>\$ 265,032</u>

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

NOTE 13 - 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 2001, the 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 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 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.

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

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

NOTE 14 – 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 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 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 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 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 15 - CONTINGENCIES

(A) GRANTS

The 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 District at June 30, 2002.

(B) LITIGATION

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

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

NOTE 16 - RISK MANAGEMENT

(A) *GENERAL RISK*

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees, and natural disasters. The 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 District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The 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-PUBLIC ENTITY RISK POOL*

The 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 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 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.

(C) *HEALTH INSURANCE*

The District provides life insurance and accidental death and dismemberment insurance to its employees. The District has elected to provide employee medical/surgical benefits and dental through Medical Mutual of Ohio, a fully funded program.

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

For the Year Ended June 30, 2002

NOTE 17 - STATE SCHOOL FUNDING PROGRAM

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked to Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Notes to the General Purpose Financial Statements

June 30, 2002

NOTE 18 – STATUTORY RESERVES

Substitute House Bill 412, as amended, required the District to “set aside” certain percentages of defined revenues for (1) textbook and instructional materials purchases and (2) capital and maintenance expenditures. As of April 10, 2001, any money on hand in a School District’s budget reserve set-aside account may at the discretion of the Board be left in the account and used by the Board to offset any budget deficit the District may experience in future years. The amendment places special conditions on any refunds or rebates from the Bureau of Workers’ Compensation. These monies are to be used to offset a budget deficit; for school facility construction, renovation or repair; for textbooks or instructional materials; for purchases of school buses; or for teachers’ professional development. It also required five year budget projections, amended the fiscal watch and fiscal emergency statutes, created a state school district solvency fund, and amended “spending reserve” provisions. During the fiscal year June 30, 2002, the reserve activity (GAAP-basis) was as follows:

	<u>Textbook Reserve</u>	<u>Maintenance Reserve</u>	<u>Budget Reserve</u>	<u>Total</u>
Set-Aside Cash Balance 7/1/01	\$ 0	\$ 0	\$ 534,739	\$ 534,739
Current Year Requirement	540,858	540,858	0	1,081,716
Qualifying Disbursements	(945,444)	(3,631,895)	0	(4,577,339)
Prior Year Excess Qualifying Disbursements	<u>(37,267)</u>	<u>0</u>	<u>0</u>	<u>(37,267)</u>
Total	<u>\$ (441,853)</u>	<u>\$ (3,091,037)</u>	<u>\$ 534,739</u>	<u>\$ (2,998,151)</u>
Balance to Carry Forward	<u>\$ (441,853)</u>	<u>\$ 0</u>	<u>\$ 534,739</u>	
Amount to Restrict				<u>\$ 534,739</u>

The District had qualifying disbursements during the year that reduced the textbook set-aside amount below zero. This extra amount of \$441,853 may be used to reduce the set-aside requirements for future years.

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside below zero, this extra amount may not be used to reduce the set-aside requirements for future years.

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2002

Federal Grantor/Program Title	Pass Through Entity Number	CFDA Number	Receipts Recognized	Program Expenditures
<i><u>U.S. Department of Agriculture</u></i>				
Passed Through the Ohio Department of Education				
Nutrition Cluster:				
Food Distribution	N/A	10.550	\$ 50,119	\$ 50,119
National School Lunch Program	050948-04-PU-01	10.555	172,753	172,753
Total Nutrition Cluster			<u>222,872</u>	<u>222,872</u>
Total U.S. Department of Agriculture			222,872	222,872
<i><u>U.S. Department of Education</u></i>				
Pass through Ohio Department of Education				
Special Education Cluster:				
Preschool Disabilities	PG-S1-01	84.173	1,491	6,210
Preschool Disabilities	PG-S1-02	84.173	36,359	33,472
Title VI-B	6B-SF-01	84.027	-	1,327
Title VI-B	6B-SF-02	84.027	380,012	321,113
Total Special Education Cluster			<u>417,862</u>	<u>362,122</u>
Title I	C1-S1-01	84.010	-	8,542
Title I	C1-S1-02	84.010	165,053	145,771
Total Title I			<u>165,053</u>	<u>154,313</u>
Eisenhower Grant	MS-S1-01	84.281	-	387
Eisenhower Grant	MS-S1-02	84.281	16,098	1,061
Total Eisenhower Grant			<u>16,098</u>	<u>1,448</u>
Title VI-R	CR-S1-2001	84.340	36,058	17,774
Title VI-R	CR-S1-2002	84.340	60,210	60,210
Total Title VI-R			<u>96,268</u>	<u>77,984</u>
Title VI	C2-S1-99	84.298	-	1,500
Title VI	C2-S1-00	84.298	6,945	9,264
Title VI	C2-S1-01	84.298	-	4,942
Title VI	C2-S1-02	84.298	34,742	25,934
Total Title VI			<u>41,687</u>	<u>41,640</u>
Drug Free Schools	DR-S1-01	84.186	-	4,302
Drug Free Schools	DR-S1-02	84.186	19,262	15,945
Total Drug Free Schools			<u>19,262</u>	<u>20,247</u>
Capital Expenses	N/A	84.216	16,914	45,818
Total Capital Expenses			<u>16,914</u>	<u>45,818</u>
Total U.S. Department of Education			<u>773,144</u>	<u>703,572</u>
<i><u>U.S. Department of Health and Human Services</u></i>				
Pass Through Ohio Department of Mental Retardation and Developmental Disabilities				
Medicaid Title XIX	N/A	93.778	223,807	223,807
Total Medicaid Title XIX			<u>223,807</u>	<u>223,807</u>
Pass Through the State Department of Education				
Refugee and Entrant Assistance	N/A	93.576	3,000	-
Total Refugee and Entrant Assistance Grant			<u>3,000</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>226,807</u>	<u>223,807</u>
Total Federal Expenditures			<u>\$ 1,222,823</u>	<u>\$ 1,150,251</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

SOUTH EUCLID-LYNTHURST CITY SCHOOL DISTRICT
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2002

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.

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, 2002, the District had commodities in inventory.

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

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

We have audited the financial statements of the South Euclid-Lyndhurst City School District as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. 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.

Compliance

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, 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*.

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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements 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 we have reported to the management of the District in a separate letter dated December 6, 2002.

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.
December 6, 2002

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Certified Public Accountants

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**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, 2002. 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 is 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, 2002.

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 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.
December 6, 2002

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

**SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
June 30, 2002**

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. Lunch Program CFDA 10.555 Title 1 CFDA 84.010
(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, 2002

**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 period ending June 30, 2001, included no material citations or recommendations.



**Auditor of State
Betty Montgomery**

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SOUTH EUCLID-LYNDRHURST CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 4, 2003**