

***SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT***

**AUDIT REPORT**

**For the Year Ended June 30, 2004**

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





**Auditor of State  
Betty Montgomery**

Board of Education  
South Euclid-Lyndhurst City School District  
5044 Mayfield Rd.  
Lyndhurst, OH 44124

We have reviewed the Independent Auditor's Report of the South Euclid-Lyndhurst City School District, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

May 6, 2005

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**SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT  
AUDIT REPORT  
For the Year Ended June 30, 2004**

**TABLE OF CONTENTS**

| <u><b>TITLE</b></u>  | <u><b>PAGE</b></u> |
|--|--------------------|
| <b>Report of Independent Accountants</b>   | 1 - 2              |
| <b>Management’s Discussion and Analysis</b>  | 3 - 11             |
| <b>Statement of Net Assets</b>   | 13                 |
| <b>Statement of Activities</b>   | 14                 |
| <b>Balance Sheet – Governmental Funds</b>  | 16                 |
| <b>Reconciliation of Total Governmental Fund Balances to<br/>Net Assets of Governmental Activities</b>   | 17                 |
| <b>Statement of Revenues, Expenditures and Changes in<br/>Fund Balances – Governmental Funds</b>   | 18                 |
| <b>Reconciliation of the Statement of Revenues, Expenditures and<br/>Changes in Fund Balances of Governmental Funds to the<br/>Statement of Activities</b>                                       | 19                 |
| <b>Statement of Revenues, Expenditures and Changes in Fund<br/>Balance - Budget and Actual – General Fund</b>  | 20                 |
| <b>Statement of Net Assets – Proprietary Funds</b>   | 22                 |
| <b>Statement of Revenues, Expenditures and Changes in<br/>Fund Balances – Proprietary Funds</b>  | 23                 |
| <b>Statement of Cash Flows – Proprietary Funds</b>   | 24                 |
| <b>Statement of Fiduciary Net Assets – Agency Fund</b>   | 25                 |
| <b>Notes to the Basic Financial Statements</b>   | 27 - 52            |
| <b>Schedule of Federal Awards Expenditures</b>   | 53                 |
| <b>Notes to the Schedule of Federal Awards Expenditures</b>  | 54                 |
| <b>Report on Compliance and on Internal Control Over Financial<br/>Reporting Based on an Audit of Financial Statements Performed<br/>In Accordance with <i>Government Auditing Standards</i></b> | 55 - 56            |
| <b>Report on Compliance with Requirements Applicable to Each<br/>Major Program and Internal Control Over Compliance in<br/>Accordance with <i>OMB Circular A-133</i></b>                         | 57 - 58            |
| <b>Schedule of Findings and Questioned Costs</b>   | 59 - 60            |
| <b>Status of Prior Year’s Citations and Recommendations</b>  | 61                 |

*Charles E. Harris & Associates, Inc.*  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid - Lyndhurst City School District, Cuyahoga County Ohio, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the South Euclid - Lyndhurst City School District, Cuyahoga County as of June 30, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2005 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Euclid - Lyndhurst City School District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.**

*Charles E. Harris & Associates, Inc.*  
February 22, 2005

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

---

The discussion and analysis of the South Euclid-Lyndhurst City School District's (the District) financial performance provided an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2004 are as follows:

- For governmental activities, net assets decreased \$145,736. This is an 18.9 percent decrease from fiscal year 2003.
- Total revenues decreased to \$54,125,671 from \$54,290,996 in fiscal year 2003. This was a decrease of \$165,325 or 0.3 percent.
- Total program expenses were \$54,271,407. Total program expenses increased from \$52,070,130 in fiscal year 2003. This is an increase of \$2,201,277 or 4.2 percent. A \$1,014,965 increase in instructional expense reflects most of this change.
- The District had \$54,271,407 in expenses related to governmental activities; only \$6,149,529 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$47,976,142 were adequate to provide for these programs.

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

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, the fund financial statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the District's most significant funds with all the non-



**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

---

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

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the basis of accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

*Fund Financial Statements*

The analysis of the District's major funds begins on page 16. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the permanent improvement fund.

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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

**The District as a Whole**

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

Table 1 provides a summary of the District's net assets for fiscal year 2004 compared to fiscal year 2003 as follows:

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

|   | Governmental Activities |               |
|---|-------------------------|---------------|
|   | 2004                    | 2003          |
| <b>Assets:</b>                                  |                         |               |
| Current and Other Assets                        | \$ 43,756,346           | \$ 45,057,942 |
| Capital Assets, Net of Accumulated Depreciation | 8,094,750               | 7,538,687     |
| <i>Total Assets</i>                             | 51,851,096              | 52,596,629    |
| <b>Liabilities:</b>                             |                         |               |
| Current and Other Liabilities                   | 39,132,680              | 39,331,455    |
| Long-Term Liabilities                           |                         |               |
| Due Within One Year                             | 995,601                 | 754,010       |
| Due in More than One Year                       | 11,098,830              | 11,741,443    |
| <i>Total Liabilities</i>                        | 51,227,111              | 51,826,908    |
| <b>Net Assets:</b>                              |                         |               |
| Invested in Capital Assets, Net of Debt         | (2,520,250)             | (3,541,313)   |
| Restricted                                      | 3,318,578               | (278,560)     |
| Unrestricted                                    | (174,343)               | 4,589,594     |
| <i>Total Net Assets</i>                         | \$ 623,985              | \$ 769,721    |

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

Total assets decreased \$745,533. Cash and cash equivalents and investments decreased \$1,520,785, which was due to the District being at the end of its levy cycle and expenditures exceeding revenues for the fiscal year. The increase of \$556,063 in capital assets is attributed to capital asset acquisitions exceeding depreciation expense during fiscal year 2004. This increase in capital assets along with the increase in taxes receivable of \$276,369 were the major offsets the decrease in cash and cash equivalents and investments.

Total liabilities decreased \$599,797. The main reason for the decrease was the result of deferred revenue declining by \$556,356.

The net impact of the assets decrease and the liabilities decrease was a decrease of \$145,736.

Table 2 shows the changes in net assets for fiscal years 2004 and 2003 for governmental activities as follows:

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

|                                    | 2004              | 2003              |
|------------------------------------|-------------------|-------------------|
| <b>Revenues:</b>                   |                   |                   |
| Program Revenues:                  |                   |                   |
| Charges for Service and Sales      | \$ 2,897,974      | \$ 2,767,913      |
| Operating Grants and Contributions | 2,994,729         | 2,949,923         |
| Capital Grants and Contributions   | <u>256,826</u>    | <u>322,617</u>    |
| <i>Total Program Revenues</i>      | 6,149,529         | 6,040,453         |
| General Revenues:                  |                   |                   |
| Property Taxes                     | 35,570,139        | 36,247,977        |
| Grants and Entitlements            | 12,187,632        | 11,839,877        |
| Investment Earnings                | 92,498            | 143,365           |
| Miscellaneous                      | 125,873           | 36,299            |
| Gain on the Sale of Capital Assets | 0                 | 1,000             |
| Net Transfers                      | <u>0</u>          | <u>(17,975)</u>   |
| <i>Total General Revenues</i>      | <u>47,976,142</u> | <u>48,250,543</u> |
| <b>Total Revenues</b>              | 54,125,671        | 54,290,996        |

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

| <b>Expenses:</b>                        |                    |                     |
|---|--------------------|---------------------|
| Instruction:                            |                    |                     |
| Regular                                 | \$21,165,902       | \$20,126,342        |
| Special                                 | 5,552,073          | 5,731,239           |
| Vocational                              | 1,168,041          | 1,159,464           |
| Other                                   | 692,034            | 546,040             |
| Support Services:                       |                    |                     |
| Pupils                                  | 2,835,091          | 2,932,804           |
| Instructional Staff                     | 1,760,915          | 2,199,536           |
| Board of Education                      | 144,435            | 130,275             |
| Administration                          | 3,196,303          | 2,730,870           |
| Fiscal                                  | 1,150,151          | 1,093,319           |
| Business                                | 389,322            | 318,251             |
| Operations and Maintenance of Plant     | 7,704,188          | 6,704,847           |
| Pupil Transportation                    | 3,017,495          | 1,276,514           |
| Central                                 | 1,194,407          | 1,276,514           |
| Operation of Non-Instructional Services | 1,413,100          | 1,578,359           |
| Food Service Operation                  | 1,315,668          | 1,255,613           |
| Extracurricular Activities              | 924,481            | 866,583             |
| Interest and Fiscal Charges             | 647,801            | 680,724             |
| <b>Total Expenses</b>                   | <u>54,271,407</u>  | <u>52,070,130</u>   |
| Change in Net Assets                    | <u>(\$145,736)</u> | <u>\$ 2,220,866</u> |

While program revenues increased for governmental activities from \$6,040,453 in fiscal year 2003 to \$6,149,529 in fiscal year 2004, the vast majority of revenues supporting governmental activities are general revenues. General revenues decreased from \$48,250,543 to \$47,976,142 in fiscal year 2004. General revenues comprised 88.6 percent of revenues supporting government activities. The primary source for the decrease was property taxes, a \$687,838 reduction. Personal Property tax revenue was the main reason for the loss of tax revenue, partially due to HB95, which reduces the amount of inventory tax paid by businesses and the devaluation of Adelphia Cable.

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service.

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

Property taxes made up 65.5 percent of revenue for governmental activities for the South Euclid-Lyndhurst City School District in fiscal year 2004, a decrease from prior years.

Program expenses increased from \$52,070,130 in fiscal year 2003 to \$54,271,407 in fiscal year 2004, a 4.2 percent increase. Much of the increase resulted from a general increase in salary and benefits. This also accounts for most of the increase in instructional expenses which had the largest increase in terms of dollars (\$1,014,965) and the largest amount of expenses, comprising 52.7 percent of expenses. When combined with pupil and instructional support, these categories make up 61.1 percent of expenses.

The governmental expenses of \$54,271,407 were primarily offset by program revenues of \$6,149,529, general revenues of \$47,976,142 and prior year cash balances. Program revenues supported 11.3 percent of total government revenue. Net assets of the District's governmental activities decreased by \$145,736. This was due to the fact that District expenses increased 4.1 percent from last fiscal year, while District revenue decreased 0.3 percent.

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

**Table 3**  
Total Cost of Program Services  
Governmental Activities

|  | <u>2004</u>              |                        | <u>2003</u>              |                        |
|--|--------------------------|------------------------|--------------------------|------------------------|
|  | Total Cost<br>Of Service | Net Cost<br>Of Service | Total Cost<br>Of Service | Net Cost<br>Of Service |
| Instruction  | \$ 28,578,050            | \$(26,468,922)         | \$27,563,085             | \$(25,445,700)         |
| Support Services:                                  |                          |                        |                          |                        |
| Pupil and Instructional Staff                      | 4,596,006                | (4,137,058)            | 5,132,340                | (4,674,519)            |
| Board of Education, Admin.,<br>Fiscal and Business | 4,880,211                | (4,717,636)            | 4,272,715                | (4,030,977)            |
| Operation and Maint. of Plant                      | 7,704,188                | (7,447,362)            | 6,704,847                | (6,446,777)            |
| Pupil Transportation                               | 3,017,495                | (3,017,495)            | 2,739,350                | (2,739,350)            |
| Central  | 1,194,407                | (1,149,592)            | 1,276,514                | (1,227,705)            |
| Operation of Non-Instr. Services                   | 1,412,100                | 412,642                | 1,578,359                | 64,318                 |
| Food Service Operations                            | 1,315,668                | (117,359)              | 1,255,613                | (76,056)               |
| Extracurricular Activities                         | 924,481                  | (831,295)              | 866,583                  | (772,187)              |
| Interest and Fiscal Charges                        | 647,801                  | (647,801)              | 680,724                  | (680,724)              |
| <b>Total Expenses</b>                              | <u>\$54,271,407</u>      | <u>\$(48,121,878)</u>  | <u>\$52,070,130</u>      | <u>\$(46,029,677)</u>  |

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

---

The dependence upon general tax revenues for governmental activities is apparent. Over 92.6 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue and prior year end cash balances support all the remaining expenses as shown in the above table. The community, as a whole, is by far the primary support for the South Euclid-Lyndhurst City School District students.

**The District's Funds**

Information on the District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$53,772,587 and expenditures of \$55,108,011. The net change in fund balance for the year was most significant in the general fund, where the general fund's net assets decreased by \$2,524,797 for fiscal year 2004.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2004 the District amended its General Fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets, but provide flexibility for site management.

For the General Fund, budget basis revenue was \$45,519,873, under the original budget estimate of \$46,075,471. Most of this difference is attributed to the loss of tax revenue in both Residential/Agricultural and Personal Property. Personal Property tax revenue was the main reason for the loss of tax revenue, partially due to HB95, which reduces the amount of inventory tax paid by businesses and the devaluation of Adelphia Cable.

For the General Fund, budget basis expenditures were \$48,285,976, under the original budget estimate of \$48,524,844. This decrease was due to the fact of some implementation of budget reductions due to the March 2, 2004 levy failure. There were three main areas that came in well under their original budget; they were in the area of Instruction, Pupil Support and Staff Support. This was offset by two areas that came in over budget; these were Operation and Maintenance of Plant and Transportation. The main reason that these two areas came in over budget was an increase in salary and benefits over original estimates.

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

Total actual expenditures on the budget basis were \$48,088,725, \$2,405,975 over actual revenues. This is due to the fact that the District is at the end of its current levy cycle and will need to either reduce future year expenditures or increase its revenue.

**Capital Assets and Debt Administration**

At the end of fiscal year 2004, the District had \$8,094,750 invested in land, buildings, and equipment. Table 4 shows fiscal year 2004 net capital asset balances for governmental type activities compared to the prior fiscal year.

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

|                              | Governmental Activities |              |
|------------------------------|-------------------------|--------------|
|                              | 2004                    | 2003         |
| Land                         | \$ 732,624              | \$ 732,624   |
| Buildings and Improvements   | 4,986,174               | 4,359,936    |
| Furniture/Equipment/Fixtures | 1,479,128               | 1,587,330    |
| Vehicles                     | 896,824                 | 858,797      |
| Total Capital Assets, Net    | \$ 8,094,750            | \$ 7,538,687 |

The increase in capital assets is due to \$1,049,155 in depreciation expense for 2004, offset by \$1,605,218 in acquisitions. These acquisitions were distributed among buildings and improvements, furniture, equipment and vehicles. The District continued its ongoing commitment to maintaining and improving its capital assets. For more information on capital assets, see Note 9 of the notes to the basic financial statements.

**Debt**

At June 30, 2004, the District had \$10,615,000 in general obligation bonds outstanding. Of this total, \$490,000 is due within one year and \$10,125,000 is due in more than one year.

**South Euclid-Lyndhurst City School District**  
**Cuyahoga County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

---

**Current Financial Related Activities**

As the preceding information shows, the District heavily depends on its property taxpayers. The District was on the ballot in March 2, 2004 with a 6.7 mill current operating levy. This levy was not approved by the electors and the District was required to make \$2,500,000 in reductions for Fiscal Year 2005 in order to meet its financial operating needs for at least one more year. In an effort to avoid making these reductions the District, on August 3, 2004, placed another 6.7 mill current operating levy on the ballot. This levy also was not approved by the electors and the District was required to carry through with the \$2,500,000 in reductions for the 2004-2005 school year. The District will look again to place a 6.7 mill levy on the May 3, 2005 ballot. If this levy were to be not approved by the voters the District will be required to make \$3,500,000 in reductions for Fiscal Year 2006.

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

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

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

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

**Contacting the District's Financial Management**

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



**South Euclid Lyndhurst City School District**

*Statement of Net Assets*

*June 30, 2004*

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                   |                                    |
| Equity in Pooled Cash and Investments           | \$ 3,351,438                       |
| Restricted Cash                                 | 534,738                            |
| Receivables:                                    |                                    |
| Taxes   | 39,734,002                         |
| Accounts  | 500                                |
| Accrued Interest                                | 9,883                              |
| Intergovernmental                               | 125,785                            |
| Nondepreciable Capital Assets                   | 732,624                            |
| Depreciable Capital Assets (Net)                | <u>7,362,126</u>                   |
| <i>Total Assets</i>                             | <u>51,851,096</u>                  |
| <b>Liabilities</b>                              |                                    |
| Accounts Payable                                | 325,678                            |
| Accrued Wages and Benefits                      | 3,370,260                          |
| Intergovernmental Payable                       | 1,922,663                          |
| Deferred Revenue                                | 31,514,079                         |
| Notes Payable                                   | 2,000,000                          |
| Long Term Liabilities:                          |                                    |
| Due Within One Year                             | 995,601                            |
| Due In More Than One Year                       | <u>11,098,830</u>                  |
| <i>Total Liabilities</i>                        | <u>51,227,111</u>                  |
| <b>Net Assets</b>                               |                                    |
| Invested in Capital Assets, Net of Related Debt | (2,520,250)                        |
| Restricted for:                                 |                                    |
| Capital Projects                                | 1,322,090                          |
| Debt Service                                    | 638,507                            |
| Other Purposes                                  | 1,357,981                          |
| Unrestricted                                    | <u>(174,343)</u>                   |
| <i>Total Net Assets</i>                         | <u>\$ 623,985</u>                  |

See accompanying notes to the basic financial statements.

**South Euclid Lyndhurst City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

|   | Expenses             | Program Revenues               |                                    |                                  |
|---|----------------------|--------------------------------|------------------------------------|----------------------------------|
|   |                      | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Governmental Activities</b>          |                      |                                |                                    |                                  |
| Current:                                |                      |                                |                                    |                                  |
| Instruction:                            |                      |                                |                                    |                                  |
| Regular                                 | \$ 21,165,902        | \$ 1,256,366                   | \$ 268,871                         | \$ 0                             |
| Special                                 | 5,552,073            | 0                              | 583,891                            | 0                                |
| Vocational                              | 1,168,041            | 0                              | 0                                  | 0                                |
| Other                                   | 692,034              | 0                              | 0                                  | 0                                |
| Support services:                       |                      |                                |                                    |                                  |
| Pupils                                  | 2,835,091            | 0                              | 240,904                            | 0                                |
| Instructional staff                     | 1,760,915            | 50,619                         | 167,425                            | 0                                |
| Board of education                      | 144,435              | 312                            | 0                                  | 0                                |
| Administration                          | 3,196,303            | 2,026                          | 160,237                            | 0                                |
| Fiscal                                  | 1,150,151            | 0                              | 0                                  | 0                                |
| Business                                | 389,322              | 0                              | 0                                  | 0                                |
| Operation and maintenance of plant      | 7,704,188            | 0                              | 0                                  | 256,826                          |
| Pupil transportation                    | 3,017,495            | 0                              | 0                                  | 0                                |
| Central                                 | 1,194,407            | 0                              | 44,815                             | 0                                |
| Operation of non-instructional services |                      |                                |                                    |                                  |
| Community services                      | 1,189,951            | 381,607                        | 1,214,917                          | 0                                |
| Food service operations                 | 1,315,668            | 884,640                        | 313,669                            | 0                                |
| Uniform supplies                        | 19,248               | 20,708                         | 0                                  | 0                                |
| Adult education                         | 203,901              | 208,510                        | 0                                  | 0                                |
| Extracurricular activities              | 924,481              | 93,186                         | 0                                  | 0                                |
| Interest and fiscal charges             | 647,801              | 0                              | 0                                  | 0                                |
| <i>Total Governmental Activities</i>    | <u>\$ 54,271,407</u> | <u>\$ 2,897,974</u>            | <u>\$ 2,994,729</u>                | <u>\$ 256,826</u>                |

**General Revenues**

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

Governmental  
Activities

|    |                     |
|----|---------------------|
| \$ | (19,640,665)        |
|    | (4,968,182)         |
|    | (1,168,041)         |
|    | (692,034)           |
|    | (2,594,187)         |
|    | (1,542,871)         |
|    | (144,123)           |
|    | (3,034,040)         |
|    | (1,150,151)         |
|    | (389,322)           |
|    | (7,447,362)         |
|    | (3,017,495)         |
|    | (1,149,592)         |
|    | 406,573             |
|    | (117,359)           |
|    | 1,460               |
|    | 4,609               |
|    | (831,295)           |
|    | (647,801)           |
|    | <u>(48,121,878)</u> |
|    | 32,691,361          |
|    | 1,054,224           |
|    | 1,824,554           |
|    | 12,187,632          |
|    | 92,498              |
|    | <u>125,873</u>      |
|    | 47,976,142          |
|    | (145,736)           |
|    | <u>769,721</u>      |
| \$ | <u>623,985</u>      |

**South Euclid-Lyndhurst City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2004*

|  | General              | Permanent<br>Improvement<br>Capital Projects | Other<br>Governmental<br>Funds |
|--|----------------------|--|--------------------------------|
| <b>Assets</b>  |                      |  |                                |
| Equity in Pooled Cash and Cash Equivalents             | \$ 638,518           | \$ 917,217                                   | \$ 1,762,321                   |
| Restricted Cash  | 534,738              | 0  | 0                              |
| Receivables:   |                      |  |                                |
| Taxes  | 36,491,713           | 2,065,413                                    | 1,176,876                      |
| Accounts   | 500                  | 0  | 0                              |
| Interfund  | 26,000               | 0  | 0                              |
| Accrued Interest                                       | 9,653                | 0  | 230                            |
| Intergovernmental                                      | 52,438               | 0  | 73,347                         |
| <i>Total Assets</i>                                    | <u>\$ 37,753,560</u> | <u>\$ 2,982,630</u>                          | <u>\$ 3,012,774</u>            |
| <b>Liabilities and Fund Balances</b>                   |                      |  |                                |
| <b>Liabilities</b>                                     |                      |  |                                |
| Accounts Payable                                       | 168,178              | 23,401                                       | 130,634                        |
| Accrued Wages and Benefits                             | 3,323,009            | 0  | 47,251                         |
| Interfund Payable                                      | 0                    | 0  | 22,000                         |
| Intergovernmental Payable                              | 1,208,275            | 0  | 29,402                         |
| Deferred Revenue                                       | 30,534,248           | 1,728,223                                    | 986,026                        |
| Notes Payable  | 0                    | 0  | 2,000,000                      |
| <i>Total Liabilities</i>                               | 35,233,710           | 1,751,624                                    | 3,215,313                      |
| <b>Fund Balances</b>                                   |                      |  |                                |
| Fund Balance:  |                      |  |                                |
| Reserved for Encumbrances                              | 275,976              | 158,475                                      | 174,872                        |
| Reserved for Tax Revenue Unavailable for Appropriation | 5,957,465            | 337,190                                      | 192,131                        |
| Reserved for Budget                                    | 534,738              | 0  | 0                              |
| Unreserved:  |                      |  |                                |
| Undesignated, Unreserved Reported in:                  |                      |  |                                |
| General Fund   | (4,248,329)          | 0  | 0                              |
| Special Revenue Funds                                  | 0                    | 0  | 1,033,863                      |
| Debt Service Fund                                      | 0                    | 0  | 395,042                        |
| Capital Projects Funds                                 | 0                    | 735,341                                      | (1,998,447)                    |
| <i>Total Fund Balances</i>                             | <u>2,519,850</u>     | <u>1,231,006</u>                             | <u>(202,539)</u>               |
| <i>Total Liabilities and Fund Balances</i>             | <u>\$ 37,753,560</u> | <u>\$ 2,982,630</u>                          | <u>\$ 3,012,774</u>            |

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets Governmental Activities  
 June 30, 2004*

|                                |  |                   |
|--------------------------------|--|-------------------|
| Total<br>Governmental<br>Funds | Total Governmental Fund Balances   | \$ 3,548,317      |
|                                | <i>Amounts reported for governmental activities in the<br/>statement of net assets are different because:</i>  |                   |
| \$ 3,318,056                   | Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.  | 8,094,750         |
| 534,738                        |  |                   |
| 39,734,002                     | Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.  |                   |
| 500                            | Grants   | 1,281             |
| 26,000                         | Delinquent Property Taxes  | 1,733,137         |
| 9,883                          |  | 1,734,418         |
| 125,785                        |  |                   |
| \$ 43,748,964                  | An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | 25,917            |
| \$ 322,213                     | Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.  |                   |
| 3,370,260                      | General Obligation Bonds   | (10,615,000)      |
| 22,000                         | Compensated Absences   | (1,479,431)       |
| 1,237,677                      | Intergovernmental Payable  | (684,986)         |
| 33,248,497                     |  | (12,779,417)      |
| 2,000,000                      |  |                   |
| 40,200,647                     | Net Assets of Governmental Activities  | <u>\$ 623,985</u> |
| 609,323                        |  |                   |
| 6,486,786                      |  |                   |
| 534,738                        |  |                   |
| (4,248,329)                    |  |                   |
| 1,033,863                      |  |                   |
| 395,042                        |  |                   |
| (1,263,106)                    |  |                   |
| 3,548,317                      |  |                   |
| \$ 43,748,964                  |  |                   |

**South Euclid-Lyndhurst City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
For the Fiscal Year Ended June 30, 2004

|   | General       | Permanent<br>Improvement | Other<br>Governmental<br>Funds |
|---|---------------|--------------------------|--------------------------------|
| <b>Revenues:</b>                                    |               |                          |                                |
| Taxes   | \$ 32,356,029 | \$ 1,805,745             | \$ 1,041,426                   |
| Intergovernmental                                   | 12,041,394    | 256,826                  | 3,143,651                      |
| Investment income                                   | 89,755        | 0                        | 2,743                          |
| Tuition and fees                                    | 1,169,093     | 0                        | 229,448                        |
| Extracurricular activities                          | 0             | 0                        | 93,186                         |
| Rentals   | 375,999       | 0                        | 3,250                          |
| Charges for services                                | 0             | 0                        | 986,154                        |
| Gifts and donations                                 | 0             | 0                        | 52,015                         |
| Miscellaneous                                       | 104,351       | 0                        | 21,522                         |
| <i>Total Revenues</i>                               | 46,136,621    | 2,062,571                | 5,573,395                      |
| <b>Expenditures:</b>                                |               |                          |                                |
| Current:  |               |                          |                                |
| Instruction:  |               |                          |                                |
| Regular   | 20,290,320    | 0                        | 337,521                        |
| Special   | 5,091,118     | 0                        | 603,082                        |
| Vocational  | 1,192,729     | 0                        | 0                              |
| Other   | 692,034       | 0                        | 0                              |
| Support services:                                   |               |                          |                                |
| Pupils  | 2,653,221     | 0                        | 253,216                        |
| Instructional staff                                 | 1,605,631     | 33,033                   | 191,384                        |
| Board of education                                  | 144,121       | 0                        | 248                            |
| Administration                                      | 3,224,731     | 0                        | 193,769                        |
| Fiscal  | 1,137,359     | 0                        | 0                              |
| Business  | 416,847       | 0                        | 0                              |
| Operation and maintenance of plant                  | 6,958,614     | 608,362                  | 0                              |
| Pupil transportation                                | 2,848,167     | 179,194                  | 0                              |
| Central   | 1,160,661     | 24,020                   | 31,234                         |
| Operation of non-instructional services             |               |                          |                                |
| Community services                                  | 14,317        | 0                        | 1,195,835                      |
| Food service operations                             | 0             | 0                        | 1,276,764                      |
| Uniform supplies                                    | 0             | 0                        | 19,248                         |
| Adult education                                     | 0             | 0                        | 203,901                        |
| Extracurricular activities                          | 699,526       | 0                        | 142,408                        |
| Capital outlay                                      | 0             | 392,795                  | 179,800                        |
| Debt service:                                       |               |                          |                                |
| Principal retirement                                | 0             | 0                        | 465,000                        |
| Interest and fiscal charges                         | 0             | 0                        | 647,801                        |
| <i>Total Expenditures</i>                           | 48,129,396    | 1,237,404                | 5,741,211                      |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (1,992,775)   | 825,167                  | (167,816)                      |
| <b>Other Financing Sources (Uses):</b>              |               |                          |                                |
| Proceeds from sales of fixed assets                 | 1,794         | 0                        | 0                              |
| Operating transfers in                              | 0             | 0                        | 533,816                        |
| Operating transfers out                             | (533,816)     | 0                        | 0                              |
| <i>Total Financing Sources and (Uses)</i>           | (532,022)     | 0                        | 533,816                        |
| <i>Net Change in Fund Balance</i>                   | (2,524,797)   | 825,167                  | 366,000                        |
| <i>Fund balance (deficit) at beginning of year</i>  | 5,044,647     | 405,839                  | (568,539)                      |
| <i>Fund balance (deficit) at end of year</i>        | \$ 2,519,850  | \$ 1,231,006             | \$ (202,539)                   |

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Reconciliation of the Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2004*

|   |   |                     |
|---|---|---------------------|
| <b>Total<br/>Governmental<br/>Funds</b> | Net Change in Fund Balances - Total Governmental Funds  | \$ (1,333,630)      |
|   | <i>Amounts reported for governmental activities in the statement of activities are different because:</i> |                     |
| \$ 35,203,200                           | Governmental funds report capital outlays as expenditures,  |                     |
| 15,441,871                              | However, in the statement of activities, the cost of those  |                     |
| 92,498                                  | assets is allocated over their estimated useful lives as  |                     |
| 1,398,541                               | depreciation expense. This is the amount by which   |                     |
| 93,186                                  | depreciation exceeded capital outlay in the current period.   |                     |
| 379,249                                 | Fixed Asset Additions   | 1,605,218           |
| 986,154                                 | Current Year Depreciation   | <u>(1,049,155)</u>  |
| 52,015                                  |   | 556,063             |
| 125,873                                 | Revenues in the statement of activities that do not provide   |                     |
|   | current financial resources are not reported as revenues  |                     |
| 53,772,587                              | in the funds.   |                     |
|   | Grants  | (13,855)            |
|   | Delinquent Property Taxes   | <u>366,939</u>      |
|   |   | 353,084             |
| 20,627,841                              | Repayment of bond principal is an expenditure in the governmental   |                     |
| 5,694,200                               | funds, but the repayment reduces long-term liabilities in the   |                     |
| 1,192,729                               | statement of net assets.  |                     |
| 692,034                                 | Bond Principal  | <u>465,000</u>      |
|   |   | 465,000             |
| 2,906,437                               | Some expenses reported in the statement of net activities do not  |                     |
| 1,830,048                               | use the current financial resources and therefore, are not reported                                       |                     |
| 144,369                                 | as expenditures in governmental funds.  |                     |
| 3,418,500                               | Compensated Absences  | (63,978)            |
| 1,137,359                               | Pension Obligation  | <u>(116,264)</u>    |
| 416,847                                 |   | (180,242)           |
| 7,566,976                               | The internal service fund used by management to charge the costs  |                     |
| 3,027,361                               | of insurance to individual funds is not reported in the district-wide                                     |                     |
| 1,215,915                               | statement of activities. The net revenue (expense) of internal service                                    |                     |
|   | funds is reported with governmental activities.   | <u>(6,011)</u>      |
| 1,210,152                               | Change in Net Assets of Governmental Activities   | <u>\$ (145,736)</u> |
| 1,276,764                               |   |                     |
| 19,248                                  |   |                     |
| 203,901                                 |   |                     |
| 841,934                                 |   |                     |
| 572,595                                 |   |                     |
| 465,000                                 |   |                     |
| 647,801                                 |   |                     |
| 55,108,011                              |   |                     |
| (1,335,424)                             |   |                     |
| 1,794                                   |   |                     |
| 533,816                                 |   |                     |
| (533,816)                               |   |                     |
| 1,794                                   |   |                     |
| (1,333,630)                             |   |                     |
| 4,881,947                               |   |                     |
| \$ 3,548,317                            |   |                     |

**South Euclid-Lyndhurst City School District**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2003*

|  | Budgeted Amounts  |                   | Actual            | Variance<br>with Final Budget<br>Positive<br>(Negative) |
|--|-------------------|-------------------|-------------------|---|
|  | Original          | Final             |                   |   |
| <b>Revenues:</b>   |                   |                   |                   |   |
| Taxes  | \$ 32,252,830     | \$ 31,791,913     | \$ 31,901,758     | \$ 109,845  |
| Intergovernmental  | 11,979,622        | 11,936,660        | 11,937,869        | 1,209   |
| Investment Income  | 0                 | 86,000            | 86,571            | 571   |
| Tuition and Fees   | 1,382,264         | 1,214,300         | 1,216,579         | 2,279   |
| Miscellaneous  | 460,755           | 491,000           | 539,973           | 48,973  |
| <i>Total Revenues</i>  | <u>46,075,471</u> | <u>45,519,873</u> | <u>45,682,750</u> | <u>162,877</u>  |
| <b>Expenditures:</b>   |                   |                   |                   |   |
| <b>Current</b>   |                   |                   |                   |   |
| Instruction  | 27,525,499        | 26,986,036        | 26,931,842        | 54,194  |
| Support Services   |                   |                   |                   |   |
| Pupils   | 2,924,658         | 2,647,603         | 2,644,291         | 3,312   |
| Instructional Staff  | 1,933,790         | 1,641,366         | 1,638,553         | 2,813   |
| Board of Education   | 133,807           | 150,073           | 146,389           | 3,684   |
| Administration   | 3,163,132         | 3,231,269         | 3,227,231         | 4,038   |
| Fiscal   | 1,152,783         | 1,147,113         | 1,144,894         | 2,219   |
| Business   | 375,547           | 430,047           | 428,028           | 2,019   |
| Operation and Maintenance of Plant   | 6,713,653         | 7,212,810         | 7,142,077         | 70,733  |
| Pupil Transportation   | 2,543,013         | 2,944,517         | 2,920,465         | 24,052  |
| Central  | 1,229,472         | 1,185,294         | 1,158,536         | 26,758  |
| Operation of Non-Instructional Services  | 55,600            | 15,060            | 14,317            | 743   |
| Extracurricular Activities   | 770,890           | 694,788           | 692,102           | 2,686   |
| <i>Total Expenditures</i>  | <u>48,521,844</u> | <u>48,285,976</u> | <u>48,088,725</u> | <u>197,251</u>  |
| Excess of Revenues Over (Under) Expenditures   | (2,446,373)       | (2,766,103)       | (2,405,975)       | 360,128   |
| <b>Other Financing Sources (Uses):</b>   |                   |                   |                   |   |
| Proceeds from Sale of Assets   | 0                 | 1,000             | 1,794             | 794   |
| Refund of Prior Year Expenditures  | 0                 | 13,500            | 13,511            | 11  |
| Refund of Prior Year Receipts  | (1,000)           | (1,000)           | 0                 | 1,000   |
| Advances In  | 0                 | 38,500            | 38,500            | 0   |
| Advances Out   | (5,000)           | (26,500)          | (26,500)          | 0   |
| Transfers Out  | (400,000)         | (540,000)         | (539,416)         | 584   |
| <i>Total Other Financing Sources (Uses)</i>  | <u>(406,000)</u>  | <u>(514,500)</u>  | <u>(512,111)</u>  | <u>2,389</u>  |
| <i>Excess of Revenues and Other Financing Sources Over (Under)<br/>Expenditures and Other Financing Uses</i> | (2,852,373)       | (3,280,603)       | (2,918,086)       | 362,517   |
| <i>Fund Balance (Deficit) at Beginning of Year (Restated)</i>  | 2,719,393         | 2,719,393         | 2,719,393         | 0   |
| Prior Year Encumbrances Appropriated   | 590,452           | 590,452           | 590,452           | 0   |
| <i>Fund Balance (Deficit) at End of Year</i>   | <u>\$ 457,472</u> | <u>\$ 29,242</u>  | <u>\$ 391,759</u> | <u>\$ 362,517</u>                                       |

See accompanying notes to the basic financial statements.



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**South Euclid-Lyndhurst City School District**

*Statement of Net Assets*

*Proprietary Funds*

*June 30, 2004*

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|  | <b>Governmental<br/>Activities<br/>Internal Service<br/>Fund</b> |
|--|--|
|  | <u>                    </u>                                      |
| <b>Assets</b>                              |  |
| Current Assets:                            |  |
| Equity in Pooled Cash and Cash Equivalents | \$ 33,382  |
|  | <u>                    </u>                                      |
| <i>Total Assets</i>                        | <u>33,382</u>  |
| <b>Liabilities</b>                         |  |
| Current Liabilities:                       |  |
| Accounts Payable                           | 3,465  |
| Interfund Payable                          | 4,000  |
|  | <u>                    </u>                                      |
| <i>Total Liabilities</i>                   | 7,465  |
| <b>Net Assets</b>                          |  |
| Unrestricted                               | 25,917   |
|  | <u>                    </u>                                      |
| <i>Total Net Assets</i>                    | <u>\$ 25,917</u>   |

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2004*

|   |    | <b>Governmental<br/>Activities<br/>Internal<br/>Service Fund</b> |
|---|----|--|
|   |    |  |
| <b>Operating Revenues:</b>                    |    |  |
| Sales   | \$ | 3,511  |
| Charges for services                          |    | 147,367  |
| Investment income                             |    | 523  |
|   |    |  |
| <i>Total Operating Revenues</i>               |    | 151,401  |
| <b>Operating Expenses:</b>                    |    |  |
| Purchased services                            |    | 152,250  |
| Materials and supplies                        |    | 5,162  |
|   |    |  |
| <i>Total Operating Expenses</i>               |    | 157,412  |
| <i>Change in Net Assets</i>                   |    | (6,011)  |
| <i>Net Assets (Deficit) Beginning of Year</i> |    | 31,928   |
|   |    |  |
| <i>Net Assets (Deficit) End of Year</i>       | \$ | 25,917   |

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Statement of Cash Flows*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2004*

|   | <b>Governmental<br/>Activities<br/>Internal<br/>Service Fund</b> |
|---|--|
| <hr style="border-top: 3px double #000;"/>  |  |
| <b>Cash Flows From Operating Activities:</b>  |  |
| Cash Received from Customers  | \$ 151,401   |
| Cash Paid for Goods and Services  | (153,947)  |
|   | (2,546)  |
| <i>Net Cash Provided By (Used For) Operating Activities</i>   | <i>(2,546)</i>   |
| <b>Cash Flows From Non-Capital Financing Activities:</b>  |  |
| Advances In   | 4,000  |
|   | 4,000  |
| <i>Net Cash Provided By (Used For) Non-Capital Activities</i>   | <i>4,000</i>   |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>   | <i>1,454</i>   |
| <i>Cash and Cash Equivalents at Beginning of Year</i>   | <i>31,928</i>  |
| <i>Cash and Cash Equivalents at End of Year</i>   | <i>\$ 33,382</i>   |
|   | <i>33,382</i>  |
| <b>Reconciliation of Operating Income (Loss) to Net Cash<br/>Provided By (Used For) Operating Activities:</b> |  |
| Operating Income (Loss)   | \$ (6,011)   |
| Increase (Decrease) in Liabilities  |  |
| Accounts Payable  | 3,465  |
|   | 3,465  |
| <i>Total Adjustments</i>  | <i>3,465</i>   |
| <i>Net Cash Provided By (Used For) Operating Activities</i>   | <i>\$ (2,546)</i>  |
|   | <i>(2,546)</i>   |

See accompanying notes to the basic financial statements.

**South Euclid-Lyndhurst City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2004*

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|  |                   |
|--|-------------------|
| <b>Assets</b>                              |                   |
| Equity in Pooled Cash and Cash Equivalents | \$ 622,094        |
| <i>Total Assets</i>                        | <u>\$ 622,094</u> |
| <br>                                       |                   |
| <b>Liabilities</b>                         |                   |
| Accounts Payable                           | \$ 500            |
| Undistributed Monies                       | 531,337           |
| Due to Students                            | <u>90,257</u>     |
| <i>Total Liabilities</i>                   | <u>\$ 622,094</u> |

See accompanying notes to the basic financial statements.

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## South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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

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

The School District is governed by a locally-elected five-member Board of Education (Board) and provides educational services as mandated by state and/or federal agencies. This Board controls the School District's instructional/support facilities which are staffed by 283 classified and 377 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 School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District, which includes general operations, food service, and student related activities of the School District.

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

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

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

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

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

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2004*

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Jointly Governed Organizations:

Lakeshore Northeast Ohio Computer Association (LNOCA)  
Ohio Schools Council

Joint Venture:

South Euclid-Lyndhurst Recreation Commission (SELREC)

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its governmental activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

***A. Basis of Presentation***

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

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

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



## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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

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

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

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

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

***Permanent Improvement Capital Projects Fund*** The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

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

***Proprietary Fund Type*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The following is the School District's proprietary fund type:

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a rotary fund.

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

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statement*

*For the Fiscal Year Ended June 30, 2004*

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funds. The School District's agency funds account for student advance placement testing and student activities.

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

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

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

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

#### ***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

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

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

***E. Budgetary Data***

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2004*

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

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

During fiscal year 2004, investments were limited to STAROhio, (the State Treasurer's Investment Pool).

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

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, 2004. Certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$92,498, which includes \$42,987 assigned from other School District funds.

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

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. At June 30, 2004, there were no prepaid items.

***H. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 21 for additional information regarding set asides.

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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***I. Capital Assets***

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

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

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

| <u>Description</u>         | <u>Governmental<br/>Activities<br/>Estimated Lives</u> |
|----------------------------|--|
| Land                       | N/A  |
| Buildings and Improvements | 10 - 40 Years  |
| Furniture and Fixtures     | 5 - 20 Years   |
| Vehicles                   | 13 Years   |
| Textbooks                  | 5 Years  |

***J. Interfund Balances***

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

***K. Compensated Absences***

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

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

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

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**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statement*  
*For the Fiscal Year Ended June 30, 2004*

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In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

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

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

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

***M. Net Assets***

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

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

***N. Fund Balance Reserves***

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

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

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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***O. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

***P. Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds received no capital contributions during the current fiscal year.

***Q. Interfund Activity***

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

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

***R. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

***S. Estimates***

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

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

Upon review of the enterprise funds, it was determined that the charges for services generated by the programs were not sufficient to cover the costs of operation. Additionally, there was no debt pledged solely by net revenues from fees and charges nor were there any laws or regulations requiring costs be recovered through fees and charges. Therefore, the School District has determined that the Special Revenue Fund Type is a more appropriate classification for these activities. Accordingly, effective July 1, 2003, the entire Enterprise Fund Type has been eliminated and reclassified to the Special Revenue Fund Type.

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statement*  
*For the Fiscal Year Ended June 30, 2004*

As a result, balances have been restated as follows:

|   | Governmental<br>Activities | Business-Type<br>Activities | Enterprise<br>Funds |
|---|----------------------------|-----------------------------|---------------------|
| <u>Statement of Net Assets</u>          |                            |                             |                     |
| Total Net Assets June 30, 2003          | \$ 661,334                 | \$ 108,387                  | \$ 108,387          |
| Reclassification of Enterprise Funds    | 108,387                    | (108,387)                   | (108,387)           |
| Restated Total Net Assets June 30, 2003 | \$ 769,721                 | \$ 0                        | \$ 0                |

|  | Total Governmental<br>Funds |
|--|-----------------------------|
| <u>Balance Sheet - Governmental Funds</u>          |                             |
| Fund Balance June 30, 2003                         | \$ 4,856,772                |
| Reclassification of Enterprise Funds - Assets      | 120,390                     |
| Reclassification of Enterprise Funds - Liabilities | (95,215)                    |
| Restated Total Net Assets June 30, 2003            | \$ 4,881,947                |

This change had the following effect on 2004 Revenues, Expenses/Expenditures, and Changes in Net Assets/Excess of Revenues over Expenditures:

- Governmental Activities revenues and expenses of \$1,634,277 and \$1,499,913 respectively are related to Enterprise Fund activity which was previously classified and as Enterprise Fund Type. This represents \$134,364 of reported change in net assets.
- Total Governmental Fund revenues and expenditures of \$1,634,277 and \$1,513,684, respectively are related to Enterprise Fund activity which was previously classified as an Enterprise Fund Type. This represents \$120,593 of the reported Excess of Revenues over Expenditures.

During the year, it was determined that the beginning budgetary fund balance in the general fund was incorrect as follows:

|                                     | General<br>Fund |
|-------------------------------------|-----------------|
| Fund Balance June 30, 2003          | \$ 3,300,640    |
| Adjustment                          | (581,247)       |
| Restated Fund Balance June 30, 2003 | 2,719,393       |



**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 4 - Accountability**

Fund Balances/Net Assets at June 30, 2004 included the following individual fund deficits:

|                    | Deficit         |               |
|--------------------|-----------------|---------------|
|                    | Fund<br>Balance | Net<br>Assets |
| Uniform Supplies   | \$ 18,848       | \$ 18,848     |
| Alternative School | 6,680           | 7,677         |
| Title VI-B         | 0               | 51,940        |
| Building Fund      | 1,982,427       | 1,982,427     |

The above fund and account deficits were caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, relies upon accounting for transactions on the basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis)" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and GAAP basis are that:

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

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statement*  
*For the Fiscal Year Ended June 30, 2004*

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

**Net Change in Fund Balance**

|   | General        |
|---|----------------|
| GAAP Basis                              | \$ (2,524,797) |
| Net Adjustment for Revenue Accruals     | (440,360)      |
| Advance In                              | 38,500         |
| Net Adjustment for Expenditure Accruals | 600,947        |
| Advance Out                             | (26,500)       |
| Adjustment for Encumbrances             | (565,876)      |
| Budget Basis                            | \$ (2,918,086) |

**Note 6 - Deposits and Investments**

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

**Deposits** At fiscal year-end, the carrying amount of the School District's deposits was (\$441,227) and the bank balance was \$245,412, all of which was covered by federal depository insurance.

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statement  
For the Fiscal Year Ended June 30, 2004*

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**Investments** GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School 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 School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

|          | <u>Carrying<br/>Value</u> | <u>Fair<br/>Value</u> |
|----------|---------------------------|-----------------------|
| STAROhio | <u>\$ 4,949,497</u>       | <u>\$ 4,949,497</u>   |

**Note 7 – Property Taxes**

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

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Cuyahoga County Auditor reappraises real property every six years with a triennial update, which was last completed for 2003. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Cuyahoga County, real property taxes are billed semi-annually, one year in arrears. The tax rate applied to real property collected in 2003 before certain homestead and rollback reductions, which reductions are reimbursed to the School District by the State of Ohio, amounted to \$89.80 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$42.78 per \$1,000 of assessed valuation for residential and agricultural real property, and \$47.36 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, 2003 was \$89.80 per \$1,000 of valuation.

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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The property valuation consisted of:

|                            | <u>2003</u>           | <u>2002</u>           |
|----------------------------|-----------------------|-----------------------|
| Real Property              |                       |                       |
| Residential/Agricultural   | \$ 686,130,410        | \$ 621,002,750        |
| Commercial/Industrial      | 156,501,950           | 145,819,840           |
| Tangible Personal Property |                       |                       |
| General                    | 24,306,497            | 30,326,951            |
| Public Utilities           | <u>15,372,440</u>     | <u>14,954,600</u>     |
| Total                      | <u>\$ 882,311,297</u> | <u>\$ 812,104,141</u> |

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the School District as an advance at June 30, 2004, was \$6,486,786 for all funds.

**Note 8 - Receivables**

Receivables at June 30, 2004, consisted of taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statement*  
For the Fiscal Year Ended June 30, 2004

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**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

|   | Restated<br>Balance<br>6/30/03 | Additions         | Reductions  | Balance<br>6/30/04  |
|---|--------------------------------|-------------------|-------------|---------------------|
| <b>Governmental Activities</b>                |                                |                   |             |                     |
| <i>Capital Assets, not being depreciated:</i> |                                |                   |             |                     |
| Land  | \$ 732,624                     | \$ 0              | \$ 0        | \$ 732,624          |
| <i>Capital Assets, being depreciated:</i>     |                                |                   |             |                     |
| Buildings and Improvements                    | 16,359,716                     | 1,019,598         | 0           | 17,379,314          |
| Furniture and Equipment                       | 5,722,308                      | 375,119           | 0           | 6,097,427           |
| Vehicles                                      | 2,530,658                      | 210,501           | 0           | 2,741,159           |
| Total Capital Assets, being depreciated       | 24,612,682                     | 1,605,218         | 0           | 26,217,900          |
| Less Accumulated Depreciation:                |                                |                   |             |                     |
| Buildings and Improvements                    | (11,999,780)                   | (393,360)         | 0           | (12,393,140)        |
| Furniture and Equipment                       | (4,134,978)                    | (483,321)         | 0           | (4,618,299)         |
| Vehicles                                      | (1,671,861)                    | (172,474)         | 0           | (1,844,335)         |
| Total Accumulated Depreciation                | (17,806,619)                   | (1,049,155)       | 0           | (18,855,774)        |
| Total Capital Assets being depreciated, net   | 6,806,063                      | 556,063           | 0           | 7,362,126           |
| Governmental Activities Capital Assets, Net   | <u>\$ 7,538,687</u>            | <u>\$ 556,063</u> | <u>\$ 0</u> | <u>\$ 8,094,750</u> |

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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Depreciation expense was charged to governmental functions as follows:

|   |              |
|---|--------------|
| Governmental Activities:                |              |
| Instruction:                            |              |
| Regular                                 | \$ 317,200   |
| Special                                 | 6,274        |
| Vocational                              | 10,088       |
| Support Services:                       |              |
| Pupils                                  | 10,887       |
| Instructional Staff                     | 52,653       |
| Business                                | 13,159       |
| Administration                          | 23,084       |
| Fiscal                                  | 4,924        |
| Operation and Maintenance of Plant      | 176,765      |
| Pupil Transportation                    | 173,593      |
| Operation of Non-Instructional Services | 68,293       |
| Central                                 | 70,850       |
| Extracurricular Activities              | 121,385      |
|   | <hr/>        |
| Total Governmental Activities           | \$ 1,049,155 |
|   | <hr/> <hr/>  |

**Note 10 - Risk Management**

***A. Property and Liability***

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

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

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

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

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

***B. Workers' Compensation***

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

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statement For the Fiscal Year Ended June 30, 2004*

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

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

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

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

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

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

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

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

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

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## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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

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

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

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salaries and the School District is required to contribute at an actuarially determined rate which is currently 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,267,956, \$1,194,252, and \$1,064,964, respectively; 49% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$653,196 represents the unpaid contribution for fiscal year 2004, and is recorded as a liability within the respective funds.

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

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits and cost-of-living adjustments to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan members may retire after five years of service at age 60; 25 years of service at age 55; or 30 years of service regardless of age. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statement For the Fiscal Year Ended June 30, 2004*

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fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$3,183,612, \$2,971,188, and \$2,936,424, respectively; 83% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$29,422 made by the School District and \$56,564 made by the plan members. \$570,316 represents the unpaid contribution for fiscal year 2004, and is recorded as a liability within the respective funds.

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

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

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

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$204,385 during the 2004 fiscal year.

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**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2004

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, the health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who qualify.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$616,146.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

**Note 14 - Long - Term Obligations**

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

|  | Outstanding<br>6/30/03 | Additions         | Reductions        | Outstanding<br>6/30/04 | Amounts<br>Due in<br>One Year |
|--|------------------------|-------------------|-------------------|------------------------|-------------------------------|
| <b>Governmental Activities:</b>                        |                        |                   |                   |                        |                               |
| General Obligation Bonds:                              |                        |                   |                   |                        |                               |
| 1993 Bond Issue 5.21%                                  | \$ 6,475,000           | \$ 0              | \$ 275,000        | \$ 6,200,000           | \$ 290,000                    |
| 1996 Bond Issue 5.37%                                  | 4,605,000              | 0                 | 190,000           | 4,415,000              | 200,000                       |
| Total General Obligation Bonds                         | 11,080,000             | 0                 | 465,000           | 10,615,000             | 490,000                       |
| Compensated Absences                                   | 1,409,337              | 288,682           | 218,588           | 1,479,431              | 505,601                       |
| Total Governmental Activities<br>Long-Term Liabilities | <u>\$ 12,489,337</u>   | <u>\$ 288,682</u> | <u>\$ 683,588</u> | <u>\$ 12,094,431</u>   | <u>\$ 995,601</u>             |

Outstanding general obligation bonds consist of school building construction issues.

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

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statement*  
For the Fiscal Year Ended June 30, 2004

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

| Fiscal Year Ending<br>June 30, | General Obligation Bonds |                     |                      |
|--------------------------------|--------------------------|---------------------|----------------------|
|                                | Principal                | Interest            | Total                |
| 2005                           | \$ 490,000               | \$ 586,112          | \$ 1,076,112         |
| 2006                           | 515,000                  | 561,585             | 1,076,585            |
| 2007                           | 535,000                  | 535,200             | 1,070,200            |
| 2008                           | 560,000                  | 505,465             | 1,065,465            |
| 2009                           | 590,000                  | 472,405             | 1,062,405            |
| 2010 - 2014                    | 3,480,000                | 1,797,693           | 5,277,693            |
| 2014 - 2019                    | 4,445,000                | 664,075             | 5,109,075            |
| Total                          | <u>\$ 10,615,000</u>     | <u>\$ 5,122,535</u> | <u>\$ 15,737,535</u> |

**Note 15 – Other Debt Obligations**

The \$2,000,000 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 4.10% and is due December 1, 2004.

**Note 16 – Jointly Governed Organizations**

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

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. This jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Governing Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2004, the School District paid \$800 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Council at 155 Center Road, Bedford, Ohio 44146.

## South Euclid-Lyndhurst City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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

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

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

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

#### **Note 17 – Joint Venture**

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

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

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statement*

*For the Fiscal Year Ended June 30, 2004*

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**Note 18 – Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

**B. Litigation**

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

**Note 19 - Interfund Transfers**

Transfers made during fiscal year 2004 were as follows:

| Fund            | Transfer<br>In    | Transfer<br>Out   |
|-----------------|-------------------|-------------------|
| General Fund    | \$ 0              | \$ 533,816        |
| Food Service    | 157,000           | 0                 |
| Adult Education | 46,000            | 0                 |
| Other Grants    | 7,816             | 0                 |
| Athletics       | 35,000            | 0                 |
| Building Fund   | 288,000           | 0                 |
| Total           | <u>\$ 533,816</u> | <u>\$ 533,816</u> |

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

**South Euclid-Lyndhurst City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

**Note 20 - Interfund Balances**

Interfund balances at June 30, 2004 consisted of the following:

|                             | Interfund<br>Receivable | Interfund<br>Payable |
|-----------------------------|-------------------------|----------------------|
| General Fund                | \$ 26,000               | \$ 0                 |
| Nonmajor Governmental Funds | 0                       | 22,000               |
| Internal Service            | 0                       | 4,000                |
|                             | \$ 26,000               | \$ 26,000            |

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2004, all interfund payables outstanding are anticipated to be repaid in fiscal year 2005.

**Note 21 - Set-Asides**

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

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

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

|   | Budget<br>Stabilization<br>Reserve | Capital<br>Improvement<br>Reserve | Textbook<br>Instructional<br>Materials<br>Reserve | Total          |
|---|------------------------------------|-----------------------------------|---|----------------|
| Set-Aside Cash Balance as of June 30, 2003      | \$ 534,738                         | \$ 0                              | \$ 0  | \$ 534,738     |
| Set-Aside Carryover Balance as of June 30, 2003 | 0                                  | 0                                 | (766,036)   | (766,036)      |
| Current Year Set-Aside Requirement              | 0                                  | 646,282                           | 646,282   | 1,292,564      |
| Qualifying Disbursements                        | 0                                  | (3,904,609)                       | (930,756)   | (4,835,365)    |
| Total   | \$ 534,738                         | \$ (3,258,327)                    | \$ (1,050,510)                                    | \$ (3,774,099) |
| Cash Balance Carried Forward FY 2005            | \$ 534,738                         | \$ 0                              | \$ 0  | \$ 534,738     |
| Amount for Set-Asides                           |                                    |                                   |   | \$ 534,738     |

**South Euclid-Lyndhurst City School District**

*Notes to the Basic Financial Statement*

*For the Fiscal Year Ended June 30, 2004*

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

**Note 22 – State School Funding Decision**

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

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

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



**SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT**

Schedule of Federal Awards Expenditures

For the Year Ended June 30, 2004

| Federal Grantor/Program Title  | Pass Through<br>Entity<br>Number | CFDA<br>Number | Receipts<br>Recognized | Program<br>Expenditures |
|--|----------------------------------|----------------|------------------------|-------------------------|
| <u><i>U.S. Department of Agriculture</i></u>   |                                  |                |                        |                         |
| Passed Through the Ohio Department of Education                                      |                                  |                |                        |                         |
| Nutrition Cluster:   |                                  |                |                        |                         |
| Food Distribution  | N/A                              | 10.550         | \$ 56,561              | \$ 56,561               |
| National School Lunch Program  | 050948-04-PU-04                  | 10.555         | 250,572                | 250,572                 |
| Total Nutrition Cluster  |                                  |                | 307,133                | 307,133                 |
| Total U.S. Department of Agriculture   |                                  |                | 307,133                | 307,133                 |
| <u><i>U.S. Department of Education</i></u>   |                                  |                |                        |                         |
| Pass through Ohio Department of Education  |                                  |                |                        |                         |
| Special Education Cluster:   |                                  |                |                        |                         |
| Preschool Disabilities   | PG-S1-02                         | 84.173         | 5,918                  | 9,620                   |
| Preschool Disabilities   | PG-S1-03                         | 84.173         | 36,088                 | 28,044                  |
| Title VI-B - IDEA-B  | 6B-SF-03                         | 84.027         | 42,171                 | 97,801                  |
| Title VI-B - IDEA-B  | 6B-SF-04                         | 84.027         | 656,556                | 620,351                 |
| Total Special Education Cluster  |                                  |                | 740,733                | 755,816                 |
| Title I  | C1-S1-03                         | 84.010         | 4,818                  | 8,067                   |
| Title I  | C1-S1-04                         | 84.010         | 206,268                | 200,060                 |
| Total Title I  |                                  |                | 211,086                | 208,127                 |
| Title II-A   | TRS1-2003                        | 84.367         | 609                    | 1,711                   |
| Title II-A   | TRS1-2004                        | 84.367         | 111,910                | 97,749                  |
| Total Title II-A   |                                  |                | 112,519                | 99,460                  |
| Title II-D   | TJS1-2004                        | 84.318         | 4,241                  | 1,780                   |
| Total Title II-D   |                                  |                | 4,241                  | 1,780                   |
| Assistive Technology Infusion Program  | ATS2-2004                        | 84.352A        | 11,900                 | 11,900                  |
| Total Assistive Technology Infusion Program  |                                  |                | 11,900                 | 11,900                  |
| Title V  | C2-S1-01                         | 84.298         | -                      | 20                      |
| Title V  | C2-S1-03                         | 84.298         | 7,470                  | 15,475                  |
| Title V  | C2-S1-04                         | 84.298         | 38,597                 | 12,013                  |
| Total Title V  |                                  |                | 46,067                 | 27,508                  |
| Title IV (Drug Free Schools)   | DR-S1-03                         | 84.186         | 35                     | 3,344                   |
| Title IV (Drug Free Schools)   | DR-S1-04                         | 84.186         | 15,291                 | 16,131                  |
| Total Drug Free Schools  |                                  |                | 15,326                 | 19,475                  |
| Safe & Drug Free Community Serv.   | N/A                              | 84.184         | 1,316                  | -                       |
| Total Safe & Drug Free Community Serv.   |                                  |                | 1,316                  | -                       |
| Total U.S. Department of Education   |                                  |                | 1,143,188              | 1,124,066               |
| <u><i>U.S. Department of Health and Human Services</i></u>                           |                                  |                |                        |                         |
| Pass Through Ohio Department of Mental Retardation<br>and Developmental Disabilities |                                  |                |                        |                         |
| Medicaid Title XIX   | N/A                              | 93.778         | 147,026                | 147,026                 |
| Total Medicaid Title XIX   |                                  |                | 147,026                | 147,026                 |
| Total U.S. Department of Health and Human Services                                   |                                  |                | 147,026                | 147,026                 |
| Total Federal Expenditures   |                                  |                | \$ 1,597,347           | \$ 1,578,225            |

See accompanying Notes to the Schedule of Federal Awards Expenditures

**SOUTH EUCLID - LYNDHURST CITY SCHOOL DISTRICT**  
**Notes to the Schedule of Federal Awards Expenditures**  
**For the Year Ended June 30, 2004**

**1. Significant Accounting Policies**

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

**2. Food Distribution**

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had commodities in inventory recorded in the Enterprise Fund.

*Charles E. Harris & Associates, Inc.*  
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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 governmental activities, each major fund, and the aggregate remaining fund information of the South Euclid - Lyndhurst City School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2005. 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 22, 2005.

**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 February 22, 2005.**

**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.*  
February 22, 2005

**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 program cluster for the year ended June 30, 2004. The District's major federal program cluster is 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 program cluster 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 program cluster for the year ended June 30, 2004.

**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.*  
February 22, 2005

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

**SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
June 30, 2004**

**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>  | Special Education Cluster:<br>Pre-school Disabilities Grant CFDA 84.173<br>Title VI-B CFDA 84.027 |
| (d)(1)(viii) | <i>Dollar Threshold: Type A\B Programs</i>  | Type A: > \$300,000<br>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, 2004**

**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, as of June 30, 2003, did not include material citations or recommendations.**





**Auditor of State  
Betty Montgomery**

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

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 17, 2005**