



**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
LAKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Willoughby-Eastlake City School District
Lake County
37047 Ridge Road
Willoughby, Ohio 44094

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Willoughby-Eastlake City School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2006, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Willoughby-Eastlake School District, Lake County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District restated the July 1, 2005 fund balance of the general and internal service funds due to fund reclassifications, overstatement of taxes receivable and misclassification of early retirement incentive payable.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is 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. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 20, 2007

Willoughby-Eastlake City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Willoughby-Eastlake City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- Total net assets increased \$5,770,378, an increase of \$5,595,258 in governmental activities and an increase of \$175,120 in business type activities. The increase in governmental activities is due to an increase in cash and cash equivalents due in part to the School District overall decrease in expenditures.
- General revenues accounted for \$79,157,985 or 91.8 percent of all revenues for governmental activities. Program-specific revenues in the form of charges for services, sales, grants or contributions accounted for \$7,041,938 or 8.2 percent of total revenues of \$86,199,923.
- Total program expenses were \$80,490,285 in governmental activities with instruction representing 59.1 percent of total expenses and \$3,285,176 in business type activities with food service representing 73.8 percent of total expenses.
- Capital assets decreased by \$184,722, with the value of capital additions offset by depreciation on older assets.
- Outstanding debt decreased by \$250,000 to \$1,710,000.

Using this Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Willoughby-Eastlake City School District as an entire operating entity. The statements begin at a summary level and expand to detailed financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's current finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. The general fund is the most significant governmental fund.

Willoughby-Eastlake City School District
Management's Discussion and Analysis
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Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as an entity looks at all financial transactions and asks the question, "How did we do financially during the 2005-2006 fiscal year?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. Changes to our net assets are a direct result of our property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

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

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and general administration.

Business - Type Activities - These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The School District's business-type activities are food service, uniform school supplies, special services, adult continuing education and extended daycare/preschool.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for its financial transactions. However, these fund financial statements concentrate on the School District's most significant funds. The School District's major governmental fund is the general fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which accounts for the flow of money into and out of those funds and the year-end balances available for spending in future years. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services provided. Governmental fund information helps the reader determine the amount of financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Willoughby-Eastlake City School District
Management's Discussion and Analysis
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Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

The Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$74,788,930	\$72,295,626	\$619,758	\$394,613	\$75,408,688	\$72,690,239
Capital Assets, Net	17,262,729	17,452,282	70,109	65,278	17,332,838	17,517,560
<i>Total Assets</i>	<u>92,051,659</u>	<u>89,747,908</u>	<u>689,867</u>	<u>459,891</u>	<u>92,741,526</u>	<u>90,207,799</u>
Liabilities						
Current and Other Liabilities	60,492,072	62,564,076	422,677	369,596	60,914,749	62,933,672
Long-Term Liabilities:						
Due Within One Year	255,000	250,000	0	0	255,000	250,000
Due in More than One Year	8,426,837	9,651,340	132,118	130,343	8,558,955	9,781,683
<i>Total Liabilities</i>	<u>69,173,909</u>	<u>72,465,416</u>	<u>554,795</u>	<u>499,939</u>	<u>69,728,704</u>	<u>72,965,355</u>
Net Assets						
Invested in Capital Assets	17,262,729	17,452,282	70,109	65,278	17,332,838	17,517,560
Restricted:						
Set Asides	1,711,146	2,256,636	0	0	1,711,146	2,256,636
Capital Projects	568,987	1,179,341	0	0	568,987	1,179,341
Debt Service	422,790	373,366	0	0	422,790	373,366
Other Purposes	1,199,157	1,331,076	0	0	1,199,157	1,331,076
Unrestricted (Deficit)	1,712,941	(5,310,209)	64,963	(105,326)	1,777,904	(5,415,535)
<i>Total Net Assets (Deficit)</i>	<u>\$22,877,750</u>	<u>\$17,282,492</u>	<u>\$135,072</u>	<u>(\$40,048)</u>	<u>\$23,012,822</u>	<u>\$17,242,444</u>

Total governmental activities assets increased by \$2,303,751. Equity in pooled cash and cash equivalents for governmental activities increased by \$4,136,590. Taxes receivable decreased by \$1,663,416 due to tangible personal property taxes being phased out.

Total liabilities for governmental activities decreased by \$3,291,507. The decrease to current liabilities was primarily the result of decreased deferred revenue of \$1,933,597 and by a decrease in accrued wages and the intergovernmental payable associated with those wages of \$1,706,823. The decrease of \$1,219,503 in long-term liabilities is directly related to the employees who left the School District in fiscal year 2006.

Willoughby-Eastlake City School District
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Table 2 shows the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for Services	\$2,043,985	\$2,197,329	\$2,506,673	\$2,415,327	\$4,550,658	\$4,612,656
Operating Grants and Contributions	4,955,953	5,186,053	838,176	730,928	5,794,129	5,916,981
Capital Grants	42,000	115,335	0	6,902	42,000	122,237
<i>Total Program Revenues</i>	<u>7,041,938</u>	<u>7,498,717</u>	<u>3,344,849</u>	<u>3,153,157</u>	<u>10,386,787</u>	<u>10,651,874</u>
General Revenues:						
Property Taxes	55,893,612	55,334,245	0	0	55,893,612	55,334,245
Grant and Entitlements	22,095,756	22,184,930	0	0	22,095,756	22,184,930
Investment Earnings	934,566	409,369	0	888	934,566	410,257
Miscellaneous	234,051	215,826	1,067	12,555	235,118	228,381
<i>Total General Revenues</i>	<u>79,157,985</u>	<u>78,144,370</u>	<u>1,067</u>	<u>13,443</u>	<u>79,159,052</u>	<u>78,157,813</u>
Total Revenues	<u>86,199,923</u>	<u>85,643,087</u>	<u>3,345,916</u>	<u>3,166,600</u>	<u>89,545,839</u>	<u>88,809,687</u>
Program Expenses						
Instruction	47,531,769	50,085,491	0	0	47,531,769	50,085,491
Support Services:						
Pupil and Instructional Staff	8,624,075	8,628,684	0	0	8,624,075	8,628,684
Board of Education, Administration, Fiscal and Business	6,676,916	7,139,929	0	0	6,676,916	7,139,929
Operation and Maintenance of Plant	7,958,701	7,245,874	0	0	7,958,701	7,245,874
Pupil Transportation	5,800,049	5,224,748	0	0	5,800,049	5,224,748
Central	953,742	975,591	0	0	953,742	975,591
Operation of Non-Instructional Services	1,019,977	942,262	0	0	1,019,977	942,262
Extracurricular Activities	1,843,765	1,943,532	0	0	1,843,765	1,943,532
Interest and Fiscal Charges	81,291	87,488	0	0	81,291	87,488
Food Service	0	0	2,424,879	2,372,720	2,424,879	2,372,720
Uniform School Supplies	0	0	391,157	351,275	391,157	351,275
Special Services	0	0	24,980	25,326	24,980	25,326
Community Education	0	0	9,192	9,033	9,192	9,033
Latchkey/Preschool	0	0	434,968	467,330	434,968	467,330
<i>Total Program Expenses</i>	<u>80,490,285</u>	<u>82,273,599</u>	<u>3,285,176</u>	<u>3,225,684</u>	<u>83,775,461</u>	<u>85,499,283</u>
Increase (Decrease) in						
Net Assets Before Transfers	5,709,638	3,369,488	60,740	(59,084)	5,770,378	3,310,404
Transfers	(114,380)	(131,333)	114,380	131,333	0	0
Increase in Net Assets	<u>5,595,258</u>	<u>3,238,155</u>	<u>175,120</u>	<u>72,249</u>	<u>5,770,378</u>	<u>3,310,404</u>
<i>Net Assets (Deficit) Beginning of Year</i>	<u>17,282,492</u>	<u>14,044,337</u>	<u>(40,048)</u>	<u>(112,297)</u>	<u>17,242,444</u>	<u>13,932,040</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$22,877,750</u>	<u>\$17,282,492</u>	<u>\$135,072</u>	<u>(\$40,048)</u>	<u>\$23,012,822</u>	<u>\$17,242,444</u>

Willoughby-Eastlake City School District
Management's Discussion and Analysis
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The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by voted millage does not increase as a result of inflation. For example, a homeowner with a home valued at \$100,000 (assessed value of \$35,000) and taxed at 1.0 mill would pay \$30.63 annually in taxes (net of the state-paid rollback). If, years later, the home were reappraised and increased in market value to \$200,000 (assuming the market value of all homes in the taxing district doubled) the effective tax rate would become 0.5 mills and the homeowner would still pay \$30.63.

Our School District, which is very dependent upon local property taxes, is hampered by a lack of revenue growth and must periodically ask the voters to increase property taxes to maintain a constant level of service. Property taxes made up 64.8 percent of revenues for governmental activities for Willoughby-Eastlake City Schools in fiscal year 2006.

The largest governmental activities program expense remains instruction, comprising 59.1 percent of expenses. When combined with pupil and instructional support these categories make up 69.8 percent of total expenses.

Interest expense was primarily attributable to the outstanding bonds for the Willoughby-Eastlake Public Library.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, (services supported by tax revenue and unrestricted State entitlements), the total cost of services and the net cost of services.

Table 3
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	\$47,531,769	\$50,085,491	(\$44,816,122)	(\$46,929,732)
Support Services:				
Pupil and Instructional Staff	8,624,075	8,628,684	(6,374,714)	(6,436,732)
Board of Education,				
Administration, Fiscal and Business	6,676,916	7,139,929	(6,430,270)	(6,804,964)
Operation and Maintenance of Plant	7,958,701	7,245,874	(7,860,789)	(7,143,924)
Pupil Transportation	5,800,049	5,224,748	(5,617,014)	(5,066,156)
Central	953,742	975,591	(860,665)	(893,871)
Operation of Non-Instructional Services	1,019,977	942,262	(198,349)	(158,440)
Extracurricular Activities	1,843,765	1,943,532	(1,209,133)	(1,253,575)
Interest and Fiscal Charges	81,291	87,488	(81,291)	(87,488)
Total Expenses	\$80,490,285	\$82,273,599	(\$73,448,347)	(\$74,774,882)

The dependence upon tax revenues for governmental activities is apparent. Property taxes cover 69.4 percent for all governmental activities expenses. Our seven communities are responsible for the primary support for Willoughby-Eastlake City School District students.

Willoughby-Eastlake City School District
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Business-Type Activities

Business-type activities include the food service, uniform school supplies, special services, adult continuing education, and extended daycare/preschool programs.

- The food service operation provides lunch in twelve of our school buildings and serves approximately 900,000 meals per year.
- The uniform school supplies fund operates book stores which sell workbooks, and consumable supplies to students.
- The extended daycare is a before-and-after school latchkey program offered at each of our elementary schools.
- The preschool program is offered at our Kennedy building and serves 150 children in programs for three-year-olds, three-and-four-year-olds, four-year-olds, and pre-kindergarten.
- The adult continuing education program, the ABLE Program, serves adults in the area of Western Lake County. The average yearly enrollment is 180 adults. Services included are:
 - GED preparation The GED test is given at this center each month during the year. Classes are free and are available during the regular school year.
 - Basic skills review in math, reading, or writing
 - Job skills review
 - English to speakers of other languages (ESOL)
 - Preparation or review classes for post-secondary education, i.e. LPN entrance exam, Lakeland Community College, Tri-C, etc.

Sales and tuition revenues make up 99.3 percent of all operating revenues received by these funds. Salaries, fringe benefits and materials and supplies make up 77.8 percent of all operating expenses.

Overall net assets increased \$175,120 in 2006, which is primarily due to transfers from the General Fund.

The School District's Funds

Information about the School District's major funds starts on page 16. These governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$84,657,041 and expenditures of \$82,384,739. The net change in fund balance for the year was most significant in the general fund, an increase of \$3,083,591.

General Fund Budgeting Highlights

The School 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 2006, the School District amended its general fund budget several times to allow for changes in its economic conditions.

For the general fund, the final budget-basis estimated revenue was \$76,000,357; \$2,569,980 below the original budget estimate of \$78,570,377. Total actual revenues were \$77,534,270, \$1,533,913 above the final budget estimate.

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The final budget-basis expenditures were \$77,683,017, \$1,813,852 above the original budget estimate of \$75,869,165. Total actual expenditures (cash outlays plus encumbrances) were \$75,541,312, \$2,141,705 below the final budget amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the School District had \$17,332,838 invested in land, buildings and improvements, furniture and equipment and vehicles, \$17,262,729 in governmental activities and \$70,109 in business type activities.

Table 4
 Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$560,374	\$560,374	\$0	\$0	\$560,374	\$560,374
Buildings and Improvements	13,883,758	14,418,780	0	0	13,883,758	14,418,780
Furniture and Equipment	590,151	594,182	52,756	46,537	642,907	640,719
Vehicles	2,228,446	1,878,946	17,353	18,741	2,245,799	1,897,687
Totals	\$17,262,729	\$17,452,282	\$70,109	\$65,278	\$17,332,838	\$17,517,560

A change in Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for instructional materials. For fiscal 2006, this amounted to \$1,305,044 for each set aside. For fiscal 2006, the School District had qualifying disbursements for textbooks and instructional materials of \$1,850,534. The current year set-aside requirement is added to the set-aside reserve balance for fiscal year 2005 and the qualifying disbursements are subtracted to determine the required set-aside balance for fiscal year 2006. This required set-aside is reported in restricted net assets. The School District met the capital expenditure set aside requirement by having a permanent improvement fund. See Note 9 to the basic financial statements for additional information on capital assets.

Debt

On August 1, 2003, the School District issued \$2,205,000 in library improvement bonds, which were used to refund the 1992 library improvement bonds. The current outstanding debt is \$1,710,000 for fiscal year 2006.

At June 30, 2006, the School District's overall legal debt margin was \$155,427,053 with an unvoted debt margin of \$1,740,864. The School District does not have a current bond rating. See Note 15 to the basic financial statements for additional information on debt.

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Current Issues

The Board of Education and administration have implemented fiscal management disciplines that utilize a variety of formal plans to ensure financial stability. We are working within the five-year budget plan, the five-year capital repairs and renovations plan, the continuous improvement plan, and the five-year enrollment projections.

The School District has the necessary revenue base to support current program levels for the next three fiscal years. Beyond that time period, our future revenue base is dependent upon the renewal of emergency levies.

Several significant legislative and judicial actions have occurred that will have a major impact on our School District. The Ohio Supreme Court has issued its fourth decision regarding school funding reform in Ohio. We believe that the ultimate resolution of funding reform is still some time away. The sudden downturn in the economy has put pressures on both the State budget as well as our local School District budget. We are concerned that the local tax base may be weakened as a result of the current economic conditions and therefore negatively impact local tax revenues. The ongoing legislative efforts to support the existence of community (charter) schools come at the expense of our current State subsidy. This year approximately \$383,000 will be deducted from our State subsidy and redirected to local community (charter) schools. Our School District has also been impacted by the continuing national trend of rapidly escalating employee benefit costs.

The current fiscal plan recognizes the following open issues that must be addressed within the next five years:

- The renewal of the existing emergency levies (in 2007, 2008 and 2009).
- Judicial or legislative action on school funding reform.
- Funding of the School District technology plan.
- Development and funding of a technology replacement schedule.
- Funding the educational improvement plan.
- Updating the five-year budget plan.

The Willoughby-Eastlake City School District has committed itself to a fiscal discipline based on long-term plans as well as a commitment to full disclosure of financial information and utilization of the highest standards of financial reporting. The School District's commitment to improve fiscal management has led to many budgeting, reporting and internal control enhancements.

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Contacting the School District Fiscal Management

This financial report was designed to comply with the most current reporting requirements and is intended to provide our parents, citizens, taxpayers, investors and creditors an understanding of the School District's financial position. Cliff Reinhardt, Treasurer, can be contacted at the Willoughby-Eastlake City School District, 37047 Ridge Road, Willoughby, Ohio 44094 or by e-mail at cliff.reinhardt@weschools.org.

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Willoughby-Eastlake City School District

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$18,918,040	\$498,701	\$19,416,741
Accounts Receivable	184,517	35	184,552
Intergovernmental Receivable	213,658	103,558	317,216
Accrued Interest Receivable	237,110	0	237,110
Prepaid Items	82,790	0	82,790
Inventory Held for Resale	0	15,605	15,605
Materials and Supplies Inventory	0	1,859	1,859
Taxes Receivable	55,121,728	0	55,121,728
Deferred Charges	31,087	0	31,087
Nondepreciable Capital Assets	560,374	0	560,374
Depreciable Capital Assets, Net	16,702,355	70,109	16,772,464
<i>Total Assets</i>	<u>92,051,659</u>	<u>689,867</u>	<u>92,741,526</u>
Liabilities			
Accounts Payable	972,626	9,915	982,541
Accrued Wages and Benefits	5,742,740	175,136	5,917,876
Intergovernmental Payable	2,249,978	229,820	2,479,798
Accrued Interest Payable	6,556	0	6,556
Early Retirement Incentive Payable	4,620,860	7,806	4,628,666
Deferred Revenue	44,504,903	0	44,504,903
Claims Payable	2,394,409	0	2,394,409
Long-Term Liabilities:			
Due Within One Year	255,000	0	255,000
Due In More Than One Year	8,426,837	132,118	8,558,955
<i>Total Liabilities</i>	<u>69,173,909</u>	<u>554,795</u>	<u>69,728,704</u>
Net Assets			
Invested in Capital Assets	17,262,729	70,109	17,332,838
Restricted for:			
Set Asides	1,711,146	0	1,711,146
Capital Projects	568,987	0	568,987
Debt Service	422,790	0	422,790
Special Trust	187,558	0	187,558
Public School Support	128,519	0	128,519
Adult LPN	411,185	0	411,185
Job Training Partnership Act	208,476	0	208,476
Retired Senior Volunteers	117,802	0	117,802
Other Purposes	145,617	0	145,617
Unrestricted	1,712,941	64,963	1,777,904
<i>Total Net Assets</i>	<u>\$22,877,750</u>	<u>\$135,072</u>	<u>\$23,012,822</u>

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
Instruction:				
Regular	\$36,668,666	\$616,652	\$405,411	\$0
Special	9,283,394	115,489	1,204,014	0
Vocational	1,267,509	18,752	49,638	0
Adult/Continuing	312,200	218,137	87,554	0
Support Services:				
Pupil	5,232,757	164,559	924,703	0
Instructional Staff	3,391,318	48,699	1,111,400	0
Board of Education	255,958	3,089	0	0
Administration	4,570,597	169,221	47,107	0
Fiscal	1,589,046	23,362	0	0
Business	261,315	3,867	0	0
Operation and Maintenance of Plant	7,958,701	96,628	1,284	0
Pupil Transportation	5,800,049	83,623	99,412	0
Central	953,742	21,092	29,985	42,000
Operation of Non-Instructional Services	1,019,977	5,216	816,412	0
Extracurricular Activities	1,843,765	455,599	179,033	0
Interest and Fiscal Charges	81,291	0	0	0
<i>Total Governmental Activities</i>	<u>80,490,285</u>	<u>2,043,985</u>	<u>4,955,953</u>	<u>42,000</u>
Business-Type Activities				
Food Service	2,424,879	1,612,776	833,856	0
Uniform School Supplies	391,157	314,986	0	0
Special Services	24,980	17,202	0	0
Community Education	9,192	3,915	4,320	0
Latchkey/Preschool	434,968	557,794	0	0
<i>Total Business-Type Activities</i>	<u>3,285,176</u>	<u>2,506,673</u>	<u>838,176</u>	<u>0</u>
<i>Totals</i>	<u><u>\$83,775,461</u></u>	<u><u>\$4,550,658</u></u>	<u><u>\$5,794,129</u></u>	<u><u>\$42,000</u></u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Other Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets (Deficit) Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$35,646,603)	\$0	(\$35,646,603)
(7,963,891)	0	(7,963,891)
(1,199,119)	0	(1,199,119)
(6,509)	0	(6,509)
(4,143,495)	0	(4,143,495)
(2,231,219)	0	(2,231,219)
(252,869)	0	(252,869)
(4,354,269)	0	(4,354,269)
(1,565,684)	0	(1,565,684)
(257,448)	0	(257,448)
(7,860,789)	0	(7,860,789)
(5,617,014)	0	(5,617,014)
(860,665)	0	(860,665)
(198,349)	0	(198,349)
(1,209,133)	0	(1,209,133)
(81,291)	0	(81,291)
<u>(73,448,347)</u>	<u>0</u>	<u>(73,448,347)</u>
0	21,753	21,753
0	(76,171)	(76,171)
0	(7,778)	(7,778)
0	(957)	(957)
0	122,826	122,826
<u>0</u>	<u>59,673</u>	<u>59,673</u>
<u>(73,448,347)</u>	<u>59,673</u>	<u>(73,388,674)</u>
54,227,057	0	54,227,057
309,428	0	309,428
1,266,090	0	1,266,090
91,037	0	91,037
22,095,756	0	22,095,756
934,566	0	934,566
234,051	1,067	235,118
79,157,985	1,067	79,159,052
<u>(114,380)</u>	<u>114,380</u>	<u>0</u>
<u>79,043,605</u>	<u>115,447</u>	<u>79,159,052</u>
5,595,258	175,120	5,770,378
17,282,492	(40,048)	17,242,444
<u>\$22,877,750</u>	<u>\$135,072</u>	<u>\$23,012,822</u>

Willoughby-Eastlake City School District

*Balance Sheet
Governmental Funds
June 30, 2006*

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,882,954	\$3,441,674	\$10,324,628
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	1,711,146	0	1,711,146
Accounts Receivable	182,483	2,034	184,517
Intergovernmental Receivable	27,150	186,508	213,658
Accrued Interest Receivable	237,110	0	237,110
Prepaid Items	77,634	0	77,634
Interfund Receivable	572,500	0	572,500
Taxes Receivable	53,571,040	1,550,688	55,121,728
<i>Total Assets</i>	<u>\$63,262,017</u>	<u>\$5,180,904</u>	<u>\$68,442,921</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$357,115	\$615,511	\$972,626
Accrued Wages and Benefits	5,392,640	350,100	5,742,740
Interfund Payable	0	572,500	572,500
Intergovernmental Payable	2,212,489	37,489	2,249,978
Early Retirement Incentive Payable	4,285,853	335,007	4,620,860
Deferred Revenue	46,158,883	1,473,903	47,632,786
<i>Total Liabilities</i>	<u>58,406,980</u>	<u>3,384,510</u>	<u>61,791,490</u>
Fund Balances			
Reserved for Encumbrances	950,942	559,421	1,510,363
Reserved for Property Taxes	5,459,457	162,111	5,621,568
Reserved for Textbooks	1,711,146	0	1,711,146
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	(3,266,508)	0	(3,266,508)
Special Revenue Funds	0	653,312	653,312
Debt Service Funds	0	458,067	458,067
Capital Projects Funds	0	(36,517)	(36,517)
<i>Total Fund Balances</i>	<u>4,855,037</u>	<u>1,796,394</u>	<u>6,651,431</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$63,262,017</u>	<u>\$5,180,904</u>	<u>\$68,442,921</u>

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances	\$6,651,431
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,262,729
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent Property Taxes	2,981,829
Grants	146,054
Total	3,127,883
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.	4,493,013
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,556)
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	31,087
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(1,710,000)
Bond Premium	(72,437)
Accounting Gain	41,315
Compensated Absences	(6,940,715)
Total	(8,681,837)
<i>Net Assets of Governmental Activities</i>	\$22,877,750

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$52,609,556	\$1,616,311	\$54,225,867
Intergovernmental	21,751,957	5,144,835	26,896,792
Interest	923,852	10,714	934,566
Tuition and Fees	602,087	307,325	909,412
Extracurricular Activities	0	665,423	665,423
Contributions and Donations	0	321,780	321,780
Charges for Services	195,736	9,601	205,337
Rentals	250,951	12,862	263,813
Miscellaneous	147,122	86,929	234,051
<i>Total Revenues</i>	<u>76,481,261</u>	<u>8,175,780</u>	<u>84,657,041</u>
Expenditures			
Current:			
Instruction:			
Regular	37,073,470	613,693	37,687,163
Special	8,016,542	1,475,396	9,491,938
Vocational	1,306,471	42,848	1,349,319
Adult/Continuing		285,824	285,824
Support Services:			
Pupil	4,169,119	1,115,199	5,284,318
Instructional Staff	2,244,371	1,089,987	3,334,358
Board of Education	258,076	461	258,537
Administration	4,445,204	158,743	4,603,947
Fiscal	1,601,165	2,732	1,603,897
Business	336,158	0	336,158
Operation and Maintenance of Plant	6,452,968	6,296	6,459,264
Pupil Transportation	5,209,710	116,612	5,326,322
Central	875,642	29,985	905,627
Operation of Non-Instructional Services	8,040	1,037,572	1,045,612
Extracurricular Activities	956,987	894,374	1,851,361
Capital Outlay	27,275	2,202,019	2,229,294
Debt Service:			
Principal Retirement	0	250,000	250,000
Interest and Fiscal Charges	0	81,800	81,800
<i>Total Expenditures</i>	<u>72,981,198</u>	<u>9,403,541</u>	<u>82,384,739</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,500,063</u>	<u>(1,227,761)</u>	<u>2,272,302</u>
Other Financing Sources (Uses)			
Transfers In	0	311,212	311,212
Transfers Out	(416,472)	0	(416,472)
<i>Total Other Financing Sources (Uses)</i>	<u>(416,472)</u>	<u>311,212</u>	<u>(105,260)</u>
<i>Net Change in Fund Balances</i>	3,083,591	(916,549)	2,167,042
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,771,446</u>	<u>2,712,943</u>	<u>4,484,389</u>
<i>Fund Balances End of Year</i>	<u>\$4,855,037</u>	<u>\$1,796,394</u>	<u>\$6,651,431</u>

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District
*Reconciliation of the Statement Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$2,167,042

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

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

Capital Asset Additions	652,929	
Current Year Depreciation	(842,482)	
Total		(189,553)

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

Delinquent Property Taxes	1,667,745	
Grants	(124,863)	
Total		1,542,882

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 250,000

In the statement of activities, interest is accrued on outstanding bonds, and bond premium bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when the bonds are issued.

Accrued Interest	521	
Amortization of Issuance Costs	(6,120)	
Amortization of Premium on Bonds	14,244	
Amortization of Accounting Gain	(8,136)	
Total		509

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statements of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 860,983

Some expenses reported in the statement of activities, such as compensated absences payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 963,395

Change in Net Assets of Governmental Activities \$5,595,258

See accompanying notes to the basic financial statements

Willoughby-Eastlake 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, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$54,682,735	\$52,894,102	\$53,970,789	\$1,076,687
Intergovernmental	22,011,387	21,291,409	21,724,807	433,398
Interest	695,801	673,042	686,742	13,700
Tuition and Fees	582,671	563,612	575,085	11,473
Charges for Services	195,099	188,718	192,559	3,841
Rentals	232,940	225,320	229,907	4,587
Miscellaneous	169,704	164,154	154,381	(9,773)
<i>Total Revenues</i>	<u>78,570,337</u>	<u>76,000,357</u>	<u>77,534,270</u>	<u>1,533,913</u>
Expenditures				
Current:				
Instruction:				
Regular	39,092,418	40,002,513	38,870,188	1,132,325
Special	7,844,890	8,039,427	8,035,894	3,533
Vocational	1,431,676	1,467,161	1,466,955	206
Support Services:				
Pupil	4,139,409	4,241,040	4,372,215	(131,175)
Instructional Staff	2,256,903	2,312,498	2,307,654	4,844
Board of Education	221,486	226,868	287,334	(60,466)
Administration	4,500,391	4,612,023	4,534,425	77,598
Fiscal	1,625,402	1,664,841	1,652,704	12,137
Business	370,955	379,809	375,571	4,238
Operation and Maintenance of Plant	6,475,609	6,632,692	6,538,074	94,618
Pupil Transportation	5,548,997	5,684,771	5,204,862	479,909
Central	1,396,089	1,430,485	900,112	530,373
Operation of Non-Instructional Services	6,809	6,978	6,964	14
Extracurricular Activities	931,464	954,583	961,085	(6,502)
Capital Outlay	26,667	27,328	27,275	53
<i>Total Expenditures</i>	<u>75,869,165</u>	<u>77,683,017</u>	<u>75,541,312</u>	<u>2,141,705</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,701,172</u>	<u>(1,682,660)</u>	<u>1,992,958</u>	<u>3,675,618</u>
Other Financing Sources (Uses)				
Advances In	74,250	74,250	74,250	0
Advances Out	(1,635,803)	(1,676,405)	(572,500)	1,103,905
Transfers Out	(380,413)	(419,641)	(416,472)	3,169
<i>Total Other Financing Sources (Uses)</i>	<u>(1,941,966)</u>	<u>(2,021,796)</u>	<u>(914,722)</u>	<u>1,107,074</u>
<i>Net Change in Fund Balance</i>	759,206	(3,704,456)	1,078,236	4,782,692
<i>Fund Balance Beginning of Year</i>	4,721,775	4,721,775	4,721,775	0
Prior Year Encumbrances Appropriated	1,592,203	1,592,203	1,592,203	0
<i>Fund Balance End of Year</i>	<u>\$7,073,184</u>	<u>\$2,609,522</u>	<u>\$7,392,214</u>	<u>\$4,782,692</u>

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District

Statement of Fund Net Assets

Proprietary Funds

June 30, 2006

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	<u>Funds</u>	<u>Fund</u>
Assets		
<i>Current Assets</i>		
Equity in Pooled Cash and Cash Equivalents	\$498,701	\$6,882,266
Accounts Receivable	35	0
Intergovernmental Receivable	103,558	0
Prepaid Items	0	5,156
Inventory Held for Resale	15,605	0
Materials and Supplies Inventory	1,859	0
	<u>619,758</u>	<u>6,887,422</u>
<i>Total Current Assets</i>	619,758	6,887,422
<i>Noncurrent Assets</i>		
Depreciable Capital Assets, Net	70,109	0
	<u>70,109</u>	<u>0</u>
<i>Total Assets</i>	<u>689,867</u>	<u>6,887,422</u>
Liabilities		
<i>Current Liabilities</i>		
Accounts Payable	9,915	0
Accrued Wages and Benefits	175,136	0
Intergovernmental Payable	229,820	0
ERI Payable	7,806	0
Claims Payable	0	2,394,409
	<u>422,677</u>	<u>2,394,409</u>
<i>Total Current Liabilities</i>	422,677	2,394,409
<i>Long-Term Liabilities:</i>		
Compensated Absences Payable	132,118	0
	<u>132,118</u>	<u>0</u>
<i>Total Liabilities</i>	<u>554,795</u>	<u>2,394,409</u>
Net Assets		
Invested in Capital Assets	70,109	0
Unrestricted	64,963	4,493,013
	<u>64,963</u>	<u>4,493,013</u>
<i>Total Net Assets</i>	<u>\$135,072</u>	<u>\$4,493,013</u>

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District

*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006*

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Operating Revenues		
Tuition	\$561,709	\$0
Sales	1,927,762	0
Charges for Services	17,202	9,122,729
Miscellaneous	1,067	0
<i>Total Operating Revenues</i>	<u>2,507,740</u>	<u>9,122,729</u>
Operating Expenses		
Salaries	1,375,392	0
Fringe Benefits	462,651	0
Purchased Services	90,901	613,945
Materials and Supplies	716,954	0
Cost of Sales	634,989	0
Depreciation	4,289	0
Claims	0	7,647,801
<i>Total Operating Expenses</i>	<u>3,285,176</u>	<u>8,261,746</u>
<i>Operating Income (Loss)</i>	<u>(777,436)</u>	<u>860,983</u>
Non-Operating Revenues		
Donated Commodities	93,968	0
Operating Grants	744,208	0
<i>Total Non-Operating Revenues</i>	<u>838,176</u>	<u>0</u>
<i>Income Before Contributions and Transfers</i>	60,740	860,983
Transfers In	254,760	0
Transfers Out	(149,500)	0
Capital Contributions	9,120	0
<i>Change in Net Assets</i>	175,120	860,983
<i>Net Assets (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>(40,048)</u>	<u>3,632,030</u>
<i>Net Assets End of Year</i>	<u>\$135,072</u>	<u>\$4,493,013</u>

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Cash Received from Customers	\$1,945,655	\$0
Cash Received from Tuition Payments	561,709	0
Cash Received from Interfund Services	0	9,123,232
Cash Received from Other Operating Sources	1,067	0
Cash Payments to Suppliers for Goods and Services	(1,330,726)	(639,877)
Cash Payments to Employees for Services	(1,389,058)	0
Cash Payments for Employee Benefits	(403,283)	0
Cash Payments for Claims	0	(6,611,810)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(614,636)</u>	<u>1,871,545</u>
Cash Flows from Noncapital Financing Activities		
Operating Grants Received	640,650	0
Transfers In	254,760	0
Transfers Out	(149,500)	0
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>745,910</u>	<u>0</u>
<i>Net Increase in Cash and Cash Equivalents</i>	131,274	1,871,545
<i>Cash and Cash Equivalents Beginning of Year (Restated)</i>	<u>367,427</u>	<u>5,010,721</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$498,701</u></u>	<u><u>\$6,882,266</u></u>

(continued)

Willoughby-Eastlake City School District

Statement of Cash Flows

Proprietary Funds (continued)

For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
<i>Operating Income (Loss)</i>	(\$777,436)	\$860,983
<i>Adjustments:</i>		
Donated Commodities Received During Year	93,968	0
Depreciation	4,289	0
Decreases in Assets:		
Accounts Receivable	691	503
Inventory Held for Resale	8,959	0
Materials and Supplies Inventory	37	0
Increase (Decrease) in Liabilities:		
Accounts Payable	9,154	(2,002)
Accrued Wages and Benefits	(13,666)	(23,656)
Compensated Absences Payable	(3,407)	0
Intergovernmental Payable	62,775	(274)
Claims Payable	0	1,035,991
<i>Total Adjustments</i>	162,800	1,010,562
<i>Net Cash Provided by (Used for) Operating Activities</i>	(\$614,636)	\$1,871,545

Noncash Capital Financing Activities

Federal donated commodities in the amount of \$93,968 were recorded as revenue in the food service enterprise fund.

The food service fund received donated capital assets from other funds in the amount of \$9,120.

See accompanying notes to the basic financial statements

Willoughby-Eastlake City School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$195,269</u>
Liabilities	
Due to Students	<u>\$195,269</u>

See accompanying notes to the basic financial statements

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Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Note 1 - Description of the School District and Reporting Entity

Willoughby-Eastlake City School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally elected five member Board and provides educational services as mandated by State and federal agencies. The Board controls the School District's thirteen instructional facilities, staffed by 492 classified personnel, 581 certified full-time teaching personnel and 25 administrative employees to provide services to students and other community members.

The School District is located in Lake County, Ohio and includes the Cities of Willoughby, Eastlake, Willoughby Hills, and Willowick and the Villages of Lakeline, Timberlake, and Waite Hill. The enrollment for the School District during the 2006 fiscal year was 9,025. The School District operates seven elementary schools (K-5), three middle schools (6-8) and three high schools (9-12).

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements are not misleading. The primary government of the School District consists of all funds, agencies, departments and offices that are not legally separate from the School District. For Willoughby-Eastlake City School District, the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Non-Public Schools - Within the School District boundaries, there are various non-public schools. Current State legislation provides funding to these parochial schools. These monies are received and disbursed by the School District on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. These transactions are reported as a governmental activity on the financial statements 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. The School District has no component units.

The School District participates in three jointly governed organizations and a related organization. These organizations are the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council, the Willoughby-Eastlake Public Library. These organizations are discussed in Notes 16 and 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Willoughby-Eastlake City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business type activities and to its proprietary funds unless those pronouncements conflict or contradict GASB pronouncements. The School District has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The more 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 statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at fiscal 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 and for the five business-type 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 limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity or business activity is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal 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 and enterprise 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 on the face of the proprietary fund statements. The fiduciary fund is reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into three categories: 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 is the School District's major governmental fund:

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

General Fund The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's enterprise funds are used to account for food service operations, uniform school supplies, special services, community education and latchkey/preschool operations.

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 utilizes an internal service fund to account for the operation of the School District's self insurance program for employee medical, surgical, prescription drug, and dental benefits.

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 fund is an agency fund which accounts for 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. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total 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 reconciliations 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 the 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 revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The 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.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

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 fund level for funds. The Treasurer has been given the authority to allocate appropriations to the function and object levels within each fund. Budgetary statements are presented beyond that legal level of control for information purposes only.

The certificate of estimated resources may be amended during the fiscal 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 that was in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues by fund. 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, 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. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2006, investments were limited to STAROhio.

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, 2006.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the fiscal year 2006 amounted to \$923,852 which includes \$87,540 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

G. 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 externally imposed by creditors, contributors, grantors or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for textbooks. See Note 19 for additional information regarding set-asides.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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 fiscal year in which services are consumed.

I. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of donated foods, purchased foods, and school supplies held for resale and material and supplies held for consumption.

J. 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. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using appropriate price-level index to deflate the cost to acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. 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. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	20-99 years	N/A
Furniture and Equipment	10-15 years	5-30 years
Vehicles	15 years	N/A

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

K. Interfund Balances

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

L. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the 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 classified, certified and administrative employees after fifteen years of service with the School District.

M. Bond Issuance Costs

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expensed when incurred.

N. Bond Premium

On the government-wide financial statements, bond premiums are deferred and amortized of the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are reported as another financing source when received.

O. Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter.

P. 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 funds financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and 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 year. Bonds are recognized as a liability on the governmental fund financial statements when due.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use 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 government-wide statement of net assets reports \$3,902,080 of restricted net assets, of which none is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for athletics and music, auxiliary services, vocational education, and drug free grant programs.

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

R. Fund Balance Reserves

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

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 textbooks represents money required to be set aside by statute for the purchase of textbook and instructional materials.

S. 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 sales for food service and uniform school supplies and charges for services for special services, community education, latchkey/preschool and self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

T. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

U. Interfund Activity

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.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

V. 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.

W. 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 – Changes in Accounting Principle and Restatement of Fund Balance/Net Assets

A. Changes in Accounting Principle

For fiscal year 2006, the School District has implemented GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

B. Restatement of Fund Balance/Net Assets

During fiscal year 2005, the School District reported an early retirement incentive payable as a long-term liability instead of a current liability in the funds. The School District also overstated taxes receivable and deferred revenue. It was also determined that funds previously reported as internal service funds should be reclassified and reported as part of general fund. These restatements had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	General	Other Governmental Funds	Total
Fund Balance, June 30, 2005	\$5,120,196	\$2,943,687	\$8,063,883
Fund Reclassification	700,000	0	700,000
Overstatement of Taxes Receivable	(5,482,615)	0	(5,482,615)
Overstatement of Deferred Revenue	5,482,615	0	5,482,615
Understatement of			
Early Retirement Incentive Payable	(4,048,750)	(230,744)	(4,279,494)
Adjusted Fund Balance, June 30, 2005	<u>\$1,771,446</u>	<u>\$2,712,943</u>	<u>\$4,484,389</u>

Due to the fund reclassification the net assets of the internal service fund were overstated at June 30, 2005 by \$700,000. This reclassification decreased net assets from \$4,332,030 to \$3,632,030.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Note 4 – Fund Deficits

The following funds had a deficit fund balance/net assets as of June 30, 2006:

Special Revenue Funds	
Preschool at Risk	\$2,910
Ohio Reads	253
Poverty Aid	28
Title III	3,980
Title I	235,947
Title VI	11,777
Preschool at Risk	84,301
Class Size Reduction	42,375
Miscellaneous Federal Grants	14,358
Enterprise Fund	
Food Service	194,569

The deficit in the special revenue funds resulted from the recognition of accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

The enterprise fund net assets deficits resulted from the application of generally accepted accounting principles. The School District will review operations to determine if steps need to be taken to ensure that the fund is self-sustaining.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

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

	Net Change in Fund Balance
GAAP Basis	\$3,083,591
Net Adjustment for Revenue Accruals	1,053,009
Advance In	74,250
Net Adjustment for Expenditure Accruals	(1,358,228)
Advance Out	(572,500)
Adjustment for Encumbrances	(1,201,886)
Budget Basis	<u>\$1,078,236</u>

Note 6 - Deposits and Investments

Monies held by the School District are classified into three categories.

Active deposits are public deposits necessary to meet current demands on the School District treasury. Active 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 has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book 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 evidence 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 held by the School District can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, Notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and 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 rating classifications by at least two nationally recognized rating agencies.

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

Deposits

Custodial Credit Risk Custodial credit risk is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$20,586,747 of the School District's bank balance of \$20,886,747 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

All investments are in an internal investment pool. As of June 30, 2006, the School District had a STAROhio investment with a fair value of \$372,351 and an average maturity of thirty-three days.

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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Credit Risk. STAROhio carries a rating of AAAM by Standards and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that specifically addresses credit risk.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent in 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. The School District did not receive their settlement until after June 30, this year.

The School District receives property taxes from Lake County. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the delayed personal property tax settlement are levied to finance current fiscal year operations and are reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

The amount available as an advance at June 30, 2006 was \$5,459,457 in the general fund, \$29,621 in the bond retirement debt service fund, and \$132,490 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$6,790,195 in the general fund, \$39,189 in the bond retirement debt service fund, and \$158,292 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$1,507,618,970	85.78 %	\$1,523,813,120	87.53 %
Public Utility Personal	99,635,310	5.67	104,075,870	5.98
Tangible Personal Property	150,185,970	8.55	112,975,270	6.49
Total	\$1,757,440,250	100.00 %	\$1,740,864,260	100.00 %
Tax rate per \$1,000 of assessed valuation	\$49.77		\$49.45	

Note 8 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (rent and tuition), 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. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
<i>Governmental Activities</i>	
Excess Costs	\$1,663
Security Costs	2,310
Tuition and Fees	23,177
Mentoring Grant and Subsidies	31,200
Title III Grant and Subsidies	4,952
Title I Grant and Subsidies	113,697
Title VI Grant and Subsidies	13,010
Drug Free Schools Grant and Subsidies	5,683
Preschool Grant and Subsidies	9,328
Class Size Reduction and Subsidies	8,638
<i>Total Governmental Activities</i>	213,658
<i>Business-Type Activities</i>	
Food Service	103,558
Total Intergovernmental Receivables	\$317,216

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006
Business-Type Activities				
Furniture and Equipment	\$425,867	\$9,120	\$0	\$434,987
Vehicles	20,823	0	0	20,823
<i>Total Capital Assets, being depreciated</i>	<u>446,690</u>	<u>9,120</u>	<u>0</u>	<u>455,810</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(379,330)	(2,901)	0	(382,231)
Vehicles	(2,082)	(1,388)	0	(3,470)
Total Accumulated Depreciation	<u>(381,412)</u>	<u>(4,289)</u>	<u>0</u>	<u>(385,701)</u>
Business-Type Activities Capital Assets, Net	<u>\$65,278</u>	<u>\$4,831</u>	<u>\$0</u>	<u>\$70,109</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	<u>\$560,374</u>	<u>\$0</u>	<u>\$0</u>	<u>\$560,374</u>
<i>Capital Assets being depreciated:</i>				
Buildings and Improvements	27,824,932	0	0	27,824,932
Furniture and Equipment	1,273,773	62,793	0	1,336,566
Vehicles	4,358,438	590,136	(297,919)	4,650,655
<i>Total Capital Assets, being depreciated</i>	<u>33,457,143</u>	<u>652,929</u>	<u>(297,919)</u>	<u>33,812,153</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(13,406,152)	(535,022)	0	(13,941,174)
Furniture and Equipment	(679,591)	(66,824)	0	(746,415)
Vehicles	(2,479,492)	(240,636)	297,919	(2,422,209)
Total Accumulated Depreciation	<u>(16,565,235)</u>	<u>(842,482) *</u>	<u>297,919</u>	<u>(17,109,798)</u>
<i>Total Capital Asset being depreciated, Net</i>	<u>16,891,908</u>	<u>(189,553)</u>	<u>0</u>	<u>16,702,355</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$17,452,282</u>	<u>(\$189,553)</u>	<u>\$0</u>	<u>\$17,262,729</u>

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$241,284
Special	1,393
Support Services:	
Administration	25,913
Fiscal	367
Business	360
Operation and Maintenance of Plant	20,557
Pupil Transportation	537,248
Central	2,278
Operation of Non-Instructional Services	1,117
Extracurricular Activities	11,965
<i>Total Depreciation Expense</i>	<u><u>\$842,482</u></u>

Depreciation expense was charged to the following business-type activity: food service \$4,289.

Note 10 - Interfund Transactions

Each month the School District transfers money from the general fund to the athletic and music fund to cover the cost of salaries and benefits for coaches, cost of officials for games and transportation of athletes. Each elementary school that has a latchkey/preschool program transfers money back to that school's public school support fund to cover their portion of general costs paid for from that fund. Additionally the general fund transferred \$200,000 to the uniform school supplies enterprise fund to cover deficit cash balance.

Transfers made during the year ended June 30, 2006 were as follows:

	Transfer From		Total
	<i>Governmental</i>	<i>Business-Type</i>	
	<u>Activities</u>	<u>Activities</u>	
Transfer To	<u>General</u>	<u>Latchkey/ Preschool</u>	
<hr/>			
<i>Governmental Activities</i>			
Public School Support	\$0	\$149,500	\$149,500
Athletics and Music	161,712	0	161,712
Total Governmental Activities	<u>161,712</u>	<u>149,500</u>	<u>311,212</u>
<hr/>			
<i>Business-Type Activities</i>			
Uniform School Supplies	200,000	0	200,000
Latchkey/Preschool	54,760	0	54,760
Grand total	<u><u>\$416,472</u></u>	<u><u>\$149,500</u></u>	<u><u>\$565,972</u></u>

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

At the end of the fiscal year, the School District advanced money from the general fund to other funds to provide additional resources for current operations. Interfund balances at June 30, 2006, consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable General Fund</u>
Governmental Activities	
Nonmajor Funds	
Title VI	\$13,000
Title IIA	7,000
Permanent Improvement	552,500
Total Governmental Activities	<u><u>\$572,500</u></u>

All advances are expected to be repaid within one year.

Note 11 - 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. During fiscal year 2006, the School District contracted with the Ohio Schools Council property and fleet insurance purchasing group. On behalf of member school districts, the Ohio Schools Council prepares specifications and solicits quotations from insurance companies. The School District fleet was insured with Indiana Insurance Company with a \$1,000,000 liability limit per loss. Indiana Insurance Company carried the property insurance (which includes inland marine, earthquake, and crime), and covered the boilers and machinery.

The School District contracted with Indiana Insurance Company for liability coverage with limits of liability of \$1,000,000 per claim and \$2,000,000 aggregate to insure the School District, the board, all board members, all administrators, certified and classified employees, and volunteers. Additionally, the School District purchased an umbrella policy for an additional \$6,000,000 coverage.

Settled claims have not exceeded this commercial coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The School District pays a premium to the State of Ohio based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Sheakley UniServices, Inc. provides administrative cost control and actuarial services to the School District

C. Employee Medical Benefits

The School District provides medical, surgical, prescription drug and dental benefits to its employees on a self-insured basis. Third parties Medical Mutual and Anthem review all claims which are then paid by the

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

School District. A premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The School District maintains stop-loss coverage for its insurance program. Aggregate stop-loss is maintained at \$6,374,120 for the period ending October 31, 2006.

The claims liability of \$2,394,409 reported in the internal service fund at June 30, 2006, is estimated by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount for the last two fiscal years follow:

	Balance at Beginning of Year	Current Year Claims	Current Year Payments	Balance at End of Year
2005	\$875,751	\$8,389,129	\$7,906,462	\$1,358,418
2006	1,358,418	7,647,801	6,611,810	2,394,409

Note 12 - Defined Benefit 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 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent 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 2006, 10.58 percent 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 for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$1,579,064 \$1,117,320, and \$959,959, respectively; 49.56 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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 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 East Broad St., Columbus, OH 43215-3371 or by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$5,135,929, \$5,144,490, and \$4,984,192, respectively; 86.13 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$50,120 made by the School District and \$107,505 made by the plan members.

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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$395,071 for fiscal year 2006.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS had 119,184 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$551,372.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

Note 14 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, an employee is paid for 30 percent of accumulated sick days up to a maximum of 260 accumulated sick days.

B. Early Retirement Incentive Payable

Classified Employees:

A retiree shall receive severance pay at the per diem rate for the actual number of unused sick leave days credited to the employee at the actual time of retirement. The number of unused sick days paid will be thirty percent of 260 days plus converted personal days. Payment will be made in one lump sum within 60 days of the effective date of retirement. The rate of pay that will be used will be that of the highest daily rate of the employee's highest year in the preceding ten years. Any employee who is currently eligible for retirement with SERS may receive a retirement incentive bonus if certain qualifications are met. The eligible employee shall receive \$5,000 if they retire in accordance with program guidelines by July 1 of their first year of eligibility. Eligible employees who choose not to retire in their first year of eligibility by retire by July 1 of their second year with an incentive of \$2,500. An employee who chooses to retire after the second year will not be eligible to receive any retirement bonus. The incentive bonus will be made in two payments beginning in January of the next two succeeding years with 60% paid on the first payment and 40% in the second payment.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Certified Employees:

A retiree shall receive severance pay at the per diem rate for the actual number of unused sick leave days credited to the employee at the actual time of retirement. The number of unused sick days paid will be thirty percent of 260 days plus converted personal days. Eligible employees shall receive a retirement incentive. In the event at least 30 members retire effective July 1, each retiring employee shall receive an incentive bonus of \$35,000 and a health reimbursement of \$25,000, with each paid in equal installments beginning on or about January 15, 2006 and ending on or about January 15, 2010. In the event at least 40 members retire, an incentive bonus of \$40,000 and health reimbursement of \$30,000 shall be paid with each paid in equal installments on or about January 15, 2006 and each succeeding January through January 15, 2010. In the event less than thirty members retire, an incentive bonus of \$30,000 shall be given paid in three equal installments beginning in January of the next three years.

C. Life Insurance Benefits

The School District provides term life insurance in the amount of \$50,000 to employees (excluding substitutes) who regularly work a minimum of 20 hours per week. Employees are also given the option to purchase additional term life insurance through a payroll deduction.

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2006, were as follows:

	Restated Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006	Amounts Due in One Year
Governmental Activities					
2003 \$2,205,000 6.00%					
Library Improvement Refunding Bonds	\$1,960,000	\$0	(\$250,000)	\$1,710,000	\$255,000
Unamortized Premium	86,681	0	(14,244)	72,437	0
Unamortized Accounting Gain	(49,451)	0	8,136	(41,315)	0
Compensated Absences	7,904,110	219,249	(1,182,644)	6,940,715	0
Total Governmental Activities					
Long-Term Liabilities	<u>\$9,901,340</u>	<u>\$219,249</u>	<u>(\$1,438,752)</u>	<u>\$8,681,837</u>	<u>\$255,000</u>
Business-Type Activities					
Compensated Absences	<u>\$130,343</u>	<u>\$34,389</u>	<u>(\$32,614)</u>	<u>\$132,118</u>	<u>\$0</u>

On August 1, 2003, the School District issued \$2,205,000 in library improvement refunding bonds with interest rates varying from 2.50 percent to 6.00 percent. Proceeds were used to refund \$2,205,000 of the outstanding 1991 Library Improvement Bonds.

The bonds were issued at a premium of \$113,982. Proceeds of \$2,270,045 were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment on the refunded portion of the 1991 Library Improvement bonds. As a result, \$1,710,000 of these bonds is considered defeased.

The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$65,045. This difference, being reported as a reduction in bonds payable, is being charged to operations through year 2012 using the straight-line method.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

Compensated absences will be paid from the general fund, career development, adult LPN, title VI-B, retired senior volunteer program, title I, and preschool grant governmental activities funds and the food service enterprise fund.

The School District's overall debt margin was \$155,427,053 with an unvoted debt margin of \$1,740,864 at June 30, 2006. Principal and interest requirement to retire the bond outstanding at June 30, 2006, are as follows:

Fiscal Year Ending	Principal	Interest	Total
June 30,			
2007	\$255,000	\$75,168	\$330,168
2008	265,000	67,356	332,356
2009	275,000	58,238	333,238
2010	285,000	45,231	330,231
2111	305,000	28,269	333,269
2012	325,000	9,750	334,750
Total	<u>\$1,710,000</u>	<u>\$284,012</u>	<u>\$1,994,012</u>

Note 16 - Jointly Governed Organizations

A. East Shore Regional Transportation System

The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTS is not accumulating significant financial resources or experiencing fiscal distress which would cause additional financial benefit or burden on the School District. In fiscal year 2006, the School District paid \$108,127 to ESRTS. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

B. East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. In fiscal year 2006, the School District paid \$9,555 to the East Shore Center. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, OH 44077.

C. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among 91 school districts. The jointly governed organization was formed to purchase 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 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

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

on the Board. In fiscal year 2006, the School District paid \$2,579 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Rd., Suite 10, Independence, Ohio 44131.

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 necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (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, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment 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 2000. 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 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 - Related Organization

The Willoughby-Eastlake Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Willoughby-Eastlake City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Willoughby-Eastlake Public Library, Ms. Suzan Bocciairelli, Clerk/Treasurer, at 263 East 305 Street, Willowick, Ohio 44095.

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

Willoughby-Eastlake City School District

Notes to the Basic Financial Statements

For the Year Ended June 30, 2006

However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is a 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 - 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 the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. In prior fiscal years, the School District was also required to set aside money for budget stabilization.

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

	Textbooks Instructional Materials Reserve	Capital Improvements Reserve
Set-aside Reserve Balance as of June 30, 2005	\$2,256,636	\$0
Current Year Set-aside Requirement	1,305,044	1,305,444
Qualifying Disbursements	<u>(1,850,534)</u>	<u>(1,329,713)</u>
Totals	<u>\$1,711,146</u>	<u>(\$24,269)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$1,711,146</u>	<u>\$0</u>
Set-aside Balance as of June 30, 2006	<u>\$1,711,146</u>	<u>\$0</u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvement set-aside this amount may not be used to reduce the set-aside requirements of future fiscal years. This negative balance is therefore not presented as being carried forward to future years.

**Willoughby-Eastlake City School District
Lake County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution	N/A	10.550	\$0	\$ 144,095	\$0	\$ 144,095
Nutrition Cluster:						
School Breakfast Program	05-PU 05	10.553	3,224	0	3,224	0
School Breakfast Program	05-PU 06	10.553	9,772	0	9,772	0
Total School Breakfast Program			12,996	0	12,996	0
National School Lunch Program	LL-P4 05	10.555	157,339	0	157,339	0
National School Lunch Program	LL-P4 06	10.555	467,373	0	467,373	0
Total National School Lunch Program			624,712	0	624,712	0
Total Nutrition Cluster			637,708	0	637,708	0
Total U.S. Department of Agriculture			637,708	144,095	637,708	144,095
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Federal Pell Grant Program 2005-06	P063P024249	84.063	36,050	0	36,050	0
Special Education Cluster						
Special Education - Grants to States	6B-SF-05	84.027	134,977	0	192,472	0
Special Education - Grants to States	6B-SF-06	84.027	2,110,327	0	1,914,379	0
Total Special Education - Grants to States			2,245,304	0	2,106,851	0
Special Education - Preschool Grants	PG-D7-04-P	84.173	0	0	420	0
Special Education - Preschool Grants	PG-SI-05	84.173	5,131	0	5,130	0
Special Education - Preschool Grants	PG-SI-06	84.173	46,905	0	44,735	0
Total Special Education - Preschool Grants			52,036	0	50,285	0
Total Special Education Cluster			2,297,340	0	2,157,136	0
Adult Education - State Grant Program	AB-SI-05	84.002	(2,759)	0	0	0
Adult Education - State Grant Program	AB-S1-06	84.002	39,945	0	39,945	0
Adult Education - State Grant Program	AB-S2-05	84.002	1,542	0	1,542	0
Adult Education - State Grant Program	AB-S2-06	84.002	27,743	0	27,743	0
Total Adult Education - State Grant Program			66,471	0	69,230	0
Advanced Placement	AVTF-04	84.330	520	0	520	0
English Language Acquisition Grant	T3-S1-05	84.365	4,011	0	5,509	0
English Language Acquisition Grant	T3-S1-06	84.365	34,488	0	32,376	0
Total English Language Acquisition Grant			38,499	0	37,885	0
Title 1 Grants to Local Educational Agencies	C1-S1-05	84.010	(64,753)	0	105,143	0
Title 1 Grants to Local Educational Agencies	C1-S1-06	84.010	955,533	0	883,006	0
Total Title 1 Grants to Local Educational Agencies			890,780	0	988,149	0
State Grants for Innovative Programs	C2-S1-05	84.298	(6,853)	0	0	0
State Grants for Innovative Programs	C2-S1-06	84.298	24,269	0	28,134	0
Total State Grants for Innovative Programs			17,416	0	28,134	0
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-05	84.186	10,762	0	2,854	0
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-06	84.186	29,617	0	19,583	0
Total Safe and Drug-Free Schools and Communities			40,379	0	22,437	0

**Willoughby-Eastlake City School District
Lake County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2006**

(Continued)

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Improving Teacher Quality State Grant	TR-S1-05	84.367	53,478	0	49,881	0
Improving Teacher Quality State Grant	TR-S1-06	84.367	294,783	0	301,513	0
Total Improving Teacher Quality State Grant			348,261	0	351,394	0
Education Technology State Grant	TJ-S1-05	84.318	(5,661)	0	1,180	0
Education Technology State Grant	TJ-S1-06	84.318	21,508	0	18,504	0
Total Education Technology State Grant			15,847	0	19,684	0
<i>Passed Through Mentor Exempted Village School District:</i>						
Vocational Education - Basic Grants to State	N/A	84.048	1,479	0	47,727	0
Vocational Education - Basic Grants to State	N/A	84.048	162,768	0	123,933	0
Total Vocational Education - Basic Grants to State			164,247	0	171,660	0
Total U.S. Department of Education			3,915,810	0	3,882,279	0
U.S. DEPARTMENT OF LABOR						
<i>Passed Through the City of Cleveland:</i>						
WIA Adult Program	N/A	17.258	28,315	0	75	0
<i>Passed Through Lake County Job & Family Services:</i>						
WIA Adult Program	N/A	17.258	1,494	0	1,580	0
<i>Passed Through the Lake County ETA:</i>						
WIA Youth Activities	N/A	17.259	149,356	0	147,664	0
Total U.S. Department of Labor			179,165	0	149,319	0
CORPORATION FOR NATIONAL & COMMUNITY SERVICES						
<i>Direct Grant:</i>						
Retired and Senior Volunteer Program	N/A	94.002	7,000		7,000	
Retired and Senior Volunteer Program	N/A	94.002	55,255	0	55,255	0
Total Corporation for National & Community Services			62,255	0	62,255	0
U.S. DEPARTMENT OF HEALTH/HUMAN SERVICES						
<i>Passed Through the Ohio Department of MRDD:</i>						
State Children's Insurance Program	N/A	93.767	4,669	0	4,669	0
Medical Assistance Program	N/A	93.778	29,304	0	29,304	0
Total U.S. Department of Health/Human Services			33,973	0	33,973	0
TOTAL FEDERAL ASSISTANCE			\$ 4,828,911	\$ 144,095	\$ 4,765,534	\$ 144,095

**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
LAKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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

NOTE C – NEGATIVE RECEIPTS

The negative receipts for Adult Education State Grant Program CFDA #84.002, Title I Grants to Local Educational Agencies CFDA #84.010, State Grants for Innovative Program CFDA #84.298, and Educational Technology State Grant #84.318 in the amounts of \$2,759, \$64,753, \$6,853, and \$5,661 respectively. These amounts were transferred or refunded to the State due to expiration of period of availability.

CFDA – Catalog of Federal Domestic Assistance

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Willoughby-Eastlake City School District
Lake County
37047 Ridge Road
Willoughby, Ohio 44094

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of Willoughby-Eastlake City School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2007, wherein we noted the District restated the July 1, 2005 fund balances of the general and internal service funds due to fund reclassifications, overstatement of taxes receivable and misclassification of early retirement incentive payable. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 20, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 20, 2007, we reported a matter related to noncompliance we deemed immaterial.

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Willoughby-Eastlake City School District
Lake County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, Board of Education, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 20, 2007



Mary Taylor, CPA

Auditor of State

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

Willoughby-Eastlake City School District
Lake County
37047 Ridge Road
Willoughby, Ohio 44094

To the Board of Education:

Compliance

We have audited the compliance of Willoughby-Eastlake City School District, Lake County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Willoughby-Eastlake City School District, Lake County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

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

We intend this report solely for the information and use of management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 20, 2007

**WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title1, CFDA #84.010 and Improving Teacher Quality State Grant, CFDA #84.367
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2005-001	ORC 9.38 Failure to deposit timely.	Partially	Comment reissued in Management Letter.



Mary Taylor, CPA
Auditor of State

WILLOUGHBY-EASTLAKE CITY SCHOOL DISTRICT

LAKE 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
APRIL 19, 2007**