



**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	25
Statement of Net Assets – Proprietary Funds	26
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	27
Statement of Cash Flows – Proprietary Funds	28
Statement of Fiduciary Net Assets – Fiduciary Funds	30
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	31
Notes to the Basic Financial Statements	33
Schedule of Federal Awards Receipts and Expenditures	71
Notes to the Schedule of Federal Awards Receipts and Expenditures	73
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	75
Independents Accountants' Report on Compliance With Requirements Applicable to Its Major Federal Programs and Internal Control Over Compliance In Accordance With OMB Circular A-133	77
Schedule of Findings	79
Schedule of Prior Audit Findings	83

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Lakewood City School District
Cuyahoga County
1470 Warren Road
Lakewood, Ohio 44107

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lakewood City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Investment Trust Fund, which represents 48% of assets of the aggregate remaining fund information. Other auditors audited those financial statements. They have furnished their report thereon to us, and we base our opinion, insofar as it relates to the amounts included for the Investment Trust Fund on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lakewood City School District, Cuyahoga County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3A, during the year ended June 30, 2004, the District restated capital assets and changed its method of accounting for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 18, 2005

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$3,498,419. Net assets of governmental activities increased \$3,671,404, which represents a 31.83% increase from 2003. Net assets of business-type activities decreased \$172,985 or 26.84% from 2003.
- Governmental activities general revenues accounted for \$74,332,627 in revenue or 87.87% of all revenues. Governmental activities program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,257,517 or 12.13% of total governmental activities revenues of \$84,590,144.
- The District had \$68,412,690 in expenses related to governmental activities; only \$10,257,517 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$74,332,627 were adequate to provide for these programs.
- The District had \$2,249,181 in expenses related to business-type activities; a total of \$2,063,592 was offset by program specific charges for services, grants and contributions. General revenues include only interest earnings of \$6,554. Total revenues were not adequate to provide for these programs by \$172,985 resulting in a decrease to net assets from \$644,417 to \$471,432.
- The District's major governmental funds are the general fund, debt service fund and building fund. The general fund had \$73,277,381 in revenues and other financing sources and \$59,950,443 in expenditures and other financing uses. The general fund's fund balance increased \$13,326,938 from \$9,150,992 to \$22,477,930.
- Another of the District's major governmental funds is the debt service fund. The debt service fund had \$16,794,603 in revenues and other financing sources and \$15,289,724 in expenditures. The debt service fund's fund balance increased \$1,504,879 from \$1,845,919 to \$3,350,798.
- The District's other major governmental fund is the building fund. The building fund had \$27,519,344 in revenues and other financing sources and \$14,971,735 in expenditures and a special item (pass through payment to library). The building fund's fund balance increased \$12,547,609 from \$24,814 to \$12,572,423.

Using these Basic Financial Statements

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund and building fund are by far the most significant funds, and the only governmental funds reported as major funds.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting 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 District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and building fund.

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 20-25 of this report.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 26-29 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also reports the external portion of monies invested on behalf of the Suburban Health Consortium, as its fiscal agent, in a separate investment trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 30-31. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 33-70 of this report.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

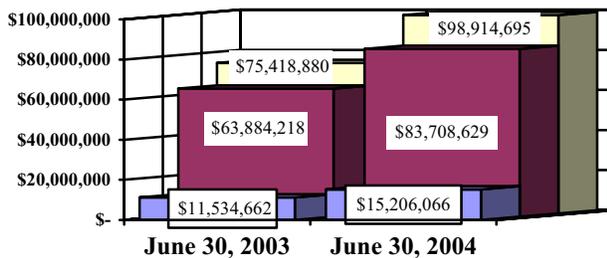
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 and 2003.

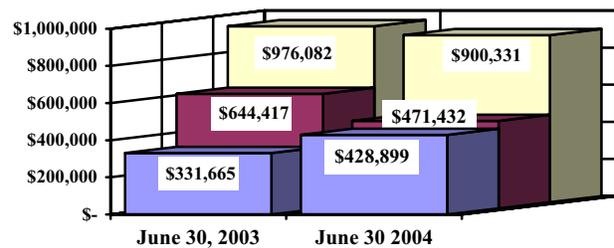
	Net Assets			
	Governmental Activities 2004	Business-Type Activities 2004	Governmental Activities 2003	Business-Type Activities 2003
<u>Assets</u>				
Current assets	\$ 84,254,375	\$ 736,463	\$ 61,795,028	\$ 791,064
Capital assets	14,660,320	163,868	13,623,852	185,018
Total assets	98,914,695	900,331	75,418,880	976,082
<u>Liabilities</u>				
Current liabilities	39,149,514	315,150	45,612,907	278,873
Long-term liabilities	44,559,115	113,749	18,271,311	52,792
Total liabilities	83,708,629	428,899	63,884,218	331,665
<u>Net Assets</u>				
Invested in capital assets, net of related debt	2,184,245	163,868	1,730,290	185,018
Restricted	17,560,293	-	3,252,437	-
Unrestricted	(4,538,472)	307,564	6,551,935	459,399
Total net assets	\$ 15,206,066	\$ 471,432	\$ 11,534,662	\$ 644,417

Governmental – Net Assets



■ Net Assets ■ Liabilities ■ Assets

Business-Type – Net Assets



■ Liabilities ■ Net Assets ■ Assets

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The table below shows the changes in net assets for fiscal years 2004 and 2003.

	Change in Net Assets			
	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>
<u>Revenues</u>				
Program revenues:				
Charges for services and sales	\$ 4,085,051	\$ 1,286,430	\$ 4,584,602	\$ 1,372,954
Operating grants and contributions	6,172,466	777,162	4,970,182	759,991
Capital grants and contributions	-	-	104,209	-
General revenues:				
Property taxes	48,101,121	-	31,114,598	-
Grants and entitlements	25,422,037	-	24,208,597	-
Investment earnings	308,187	6,554	375,230	13,505
Miscellaneous	<u>501,282</u>	<u>-</u>	<u>306,328</u>	<u>-</u>
Total revenues	<u>84,590,144</u>	<u>2,070,146</u>	<u>65,663,746</u>	<u>2,146,450</u>
<u>Expenses</u>				
Program expenses:				
Instruction:				
Regular	\$ 24,284,814	\$ -	\$ 24,007,680	\$ -
Special	10,607,287	-	9,822,066	-
Vocational	4,543,182	-	4,357,297	-
Other	1,376,249	-	1,419,041	-
Support services:				
Pupil	4,665,166	-	4,538,403	-
Instructional staff	4,094,222	-	4,329,142	-
Board of education	106,375	-	65,386	-
Administration	3,983,910	-	3,557,592	-
Fiscal	1,480,898	-	1,307,577	-
Business	894,438	-	1,041,495	-
Operations and maintenance	7,308,762	-	7,676,845	-
Pupil transportation	131,327	-	132,350	-
Central	437,371	-	424,690	-
Operation of non-instructional services	1,208,715	-	1,133,364	-
Extracurricular activities	1,001,687	-	922,069	-
Intergovernmental	984,854	-	1,177,091	-
Interest and fiscal charges	1,303,433	-	768,251	-
Food service	-	1,947,066	-	1,887,827
Recreation	<u>-</u>	<u>302,115</u>	<u>-</u>	<u>332,421</u>
Total expenses	<u>68,412,690</u>	<u>2,249,181</u>	<u>66,680,339</u>	<u>2,220,248</u>
Special items	(12,500,000)	-	-	-
Transfers	<u>(6,050)</u>	<u>6,050</u>	<u>-</u>	<u>-</u>
Changes in net assets	<u>\$ 3,671,404</u>	<u>\$ (172,985)</u>	<u>\$ (1,016,593)</u>	<u>\$ (73,798)</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

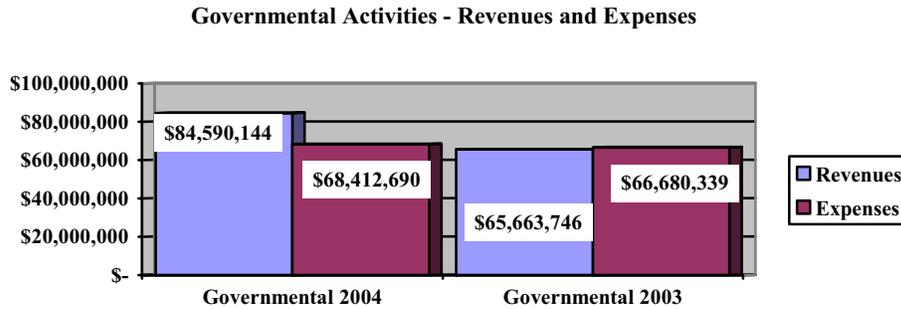
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Activities

Net assets of the District's governmental activities increased by \$3,671,404. Total governmental expenses of \$68,412,690 were offset by program revenues of \$10,257,517 and general revenues of \$74,332,627. Program revenues supported 14.99% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 86.92% of total governmental revenue.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2004 and 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses:				
Instruction:				
Regular	24,284,814	23,157,489	24,007,680	19,247,506
Special	10,607,287	7,243,596	9,822,066	8,284,873
Vocational	4,543,182	3,508,889	4,357,297	4,211,376
Other	1,376,249	1,154,838	1,419,041	1,340,281

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

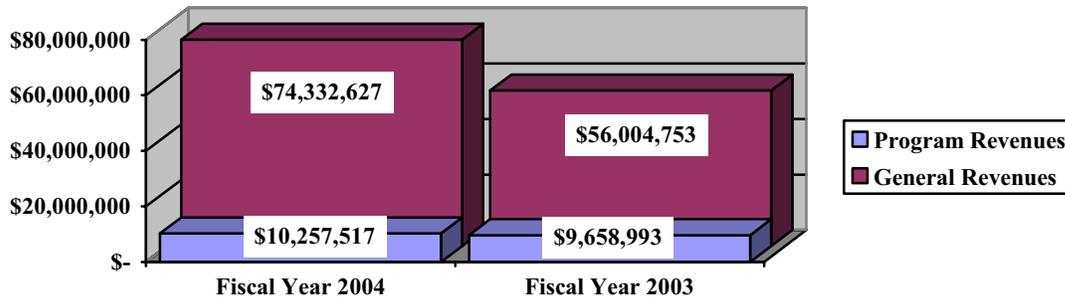
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Support services:				
Pupil	4,665,166	4,212,973	4,538,403	4,060,576
Instructional staff	4,094,222	3,523,534	4,329,142	3,750,336
Board of Education	106,375	106,375	65,386	65,386
Administration	3,983,910	3,532,663	3,557,592	3,153,440
Fiscal	1,480,898	1,464,645	1,307,577	1,294,556
Business	894,438	862,707	1,041,495	1,041,495
Operations and maintenance	7,308,762	7,067,693	7,676,845	7,450,883
Pupil transportation	131,327	131,327	132,350	132,350
Central	437,371	370,229	424,690	354,695
Operation of non-instructional services	1,208,715	668,948	1,133,364	944,240
Extracurricular activities	1,001,687	27,131	922,069	838,856
Intergovernmental	984,854	(181,297)	1,177,091	82,246
Interest and fiscal charges	1,303,433	1,303,433	768,251	768,251
Total expenses	\$ 68,412,690	\$ 58,155,173	\$ 66,680,339	\$ 57,021,346

The dependence upon tax revenue during fiscal year 2004 for governmental activities is apparent, as 83.84% of 2004 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 85.01% in 2004. The District's taxpayers, as a whole, is by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Business-Type Activities

Business-type activities include recreation and the food service operation. These programs had revenues of \$2,070,146 and expenses of \$2,249,181 for fiscal year 2004. The food service operations had expenses of \$1,947,066 and revenues of \$1,830,785. This resulted in a decrease to net assets for the fiscal year of \$116,281. The recreation programs had expenses of \$302,115, revenues of \$239,361 and transfers in of \$6,050. This resulted in a decrease to net assets for the fiscal year of \$56,704. These funds are self-supporting through user fees and charges. Management assesses their performance to ensure that they are run efficiently.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$40,697,889, which is above last year's total of \$12,981,007. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Increase</u>
General	\$ 22,477,930	\$ 9,150,992	\$13,326,938
Debt Service	3,350,798	1,845,919	1,504,879
Building	12,572,423	24,814	12,547,609
Other Governmental	<u>2,296,738</u>	<u>1,959,282</u>	<u>337,456</u>
Total	<u>\$ 40,697,889</u>	<u>\$ 12,981,007</u>	<u>\$27,716,882</u>

General Fund

The District's general fund balance increased by \$13,326,938, due to an increase in tax revenue and lower interest earnings during 2004. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 44,026,256	\$ 29,775,486	47.86 %
Interest earnings	203,947	382,746	(46.71) %
Intergovernmental	25,112,414	23,977,716	4.73 %
Other revenues	<u>3,865,300</u>	<u>3,908,394</u>	(1.10) %
Total	<u>\$ 73,207,917</u>	<u>\$ 58,044,342</u>	26.12 %

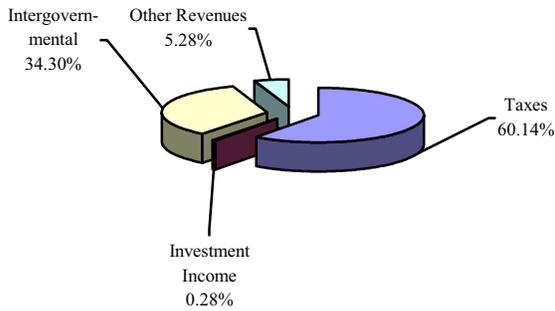
Tax revenue increased \$14,250,770 or 47.86% from the prior year. This is the result of a dramatic increase in the amount of taxes collected by the Cuyahoga County Auditor and available to the District as an advance at fiscal year end. This increased income is due to the approval of the 6.9 mill tax levy in 2002 that is now starting to be collected. These amounts vary depending upon when the tax bills are sent.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

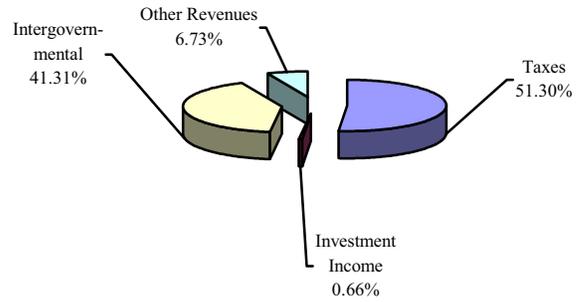
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Intergovernmental revenue increased \$1,134,698 or 4.73% from the prior year. This increase is attributed to an increase in the number of grants the District received in 2004. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. All other revenue remained comparable to 2003.

Revenues – Fiscal Year 2004



Revenues – Fiscal Year 2003



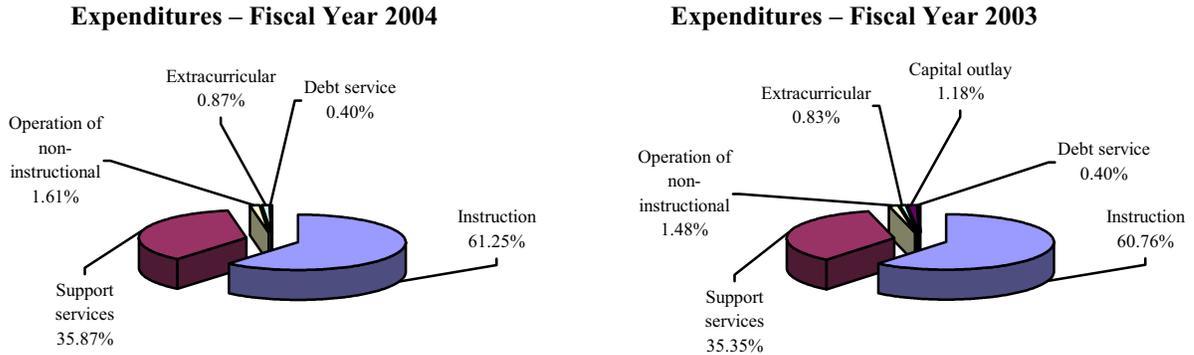
The table that follows assists in illustrating the expenditures of the general fund.

	2004 <u>Amount</u>	2003 <u>Amount</u>	Percentage <u>Change</u>
<u>Expenditures</u>			
Instruction	\$ 36,366,113	\$ 36,105,159	0.72 %
Support services	21,302,632	21,001,685	1.43 %
Operation of non-instructional services	956,256	878,762	8.82 %
Extracurricular activities	516,928	490,731	5.34 %
Capital outlay	-	702,537	(100.00) %
Debt service	<u>239,204</u>	<u>239,703</u>	(0.21) %
Total	<u>\$ 59,381,133</u>	<u>\$ 59,418,577</u>	(0.06) %

The most significant decrease was in the area of capital outlay. This decrease is due to the District not entering into any capital leases during the year. Instruction expenditures increased by \$260,954 or 0.72%. This increase is primarily due to wage and benefit increases. All other expenditures remained comparable to 2003.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**



Debt Service Fund

The debt service fund had \$16,794,603 in revenues and other financing sources and \$15,289,724 in expenditures. The debt service fund's fund balance increased \$1,504,879 from \$1,845,919 to \$3,350,798.

Building Fund

The building fund had \$27,519,344 in revenues and other financing sources and \$14,971,735 in expenditures and a special item (pass through payment to library). The building fund's fund balance increased \$12,547,609 from \$24,814 to \$12,572,423.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, final budgeted revenues and other financing sources were \$65,218,098, which was increased from the original budgeted revenues and other financing sources estimate of \$64,460,717. Actual revenues and other financing sources for fiscal 2004 was \$66,126,701. This represents a \$908,603 increase over final budgeted revenues.

General fund original appropriations (expenditures and other financing uses) of \$65,327,156 were decreased to \$64,036,332 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$62,157,497, which was \$1,878,835 less than the final budget appropriations.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

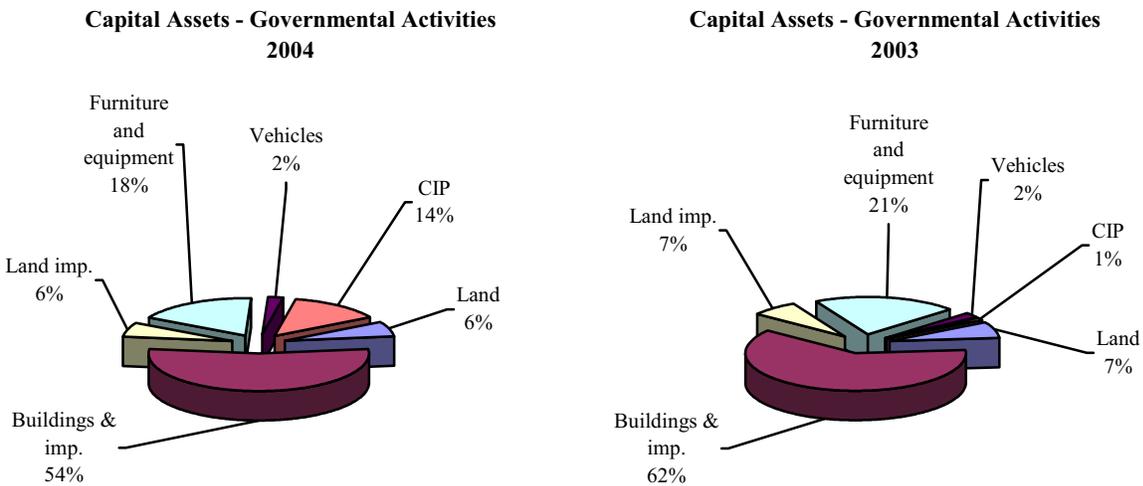
Capital Assets

During fiscal year 2004, the District raised the threshold for capital assets and had a restatement due to errors and omissions in the amounts previously reported. This resulted in a restatement of capital assets in the governmental and business-type activities (see Note 2.H. to the basic financial statements for detail). At the end of fiscal 2004, the District had \$14,824,188 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$14,660,320 was reported in governmental activities and \$163,868 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 944,350	\$ 944,350	\$ -	\$ -	\$ 944,350	\$ 944,350
Land improvements	880,670	946,814	-	-	880,670	946,814
Building and improvements	7,891,085	8,389,287	-	-	7,891,085	8,389,287
Furniture and equipment	2,619,979	2,882,479	163,868	185,018	2,783,847	3,067,497
Vehicles	322,622	318,078	-	-	322,622	318,078
Construction in progress	2,001,614	142,844	-	-	2,001,614	142,844
Total	\$14,660,320	\$13,623,852	\$ 163,868	\$ 185,018	\$14,824,188	\$13,808,870

The following graphs show the breakdown of governmental activities capital assets by category for 2004 and 2003.



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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Debt Administration

At June 30, 2004 the District had \$37,504,340 in general obligation bonds, notes payable and capital leases outstanding. Of this total, \$16,774,017 is due within one year and \$20,730,323 is due within greater than one year. The following table summarizes the bonds and capital leases outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities	Governmental Activities
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 22,200,635	\$ 10,845,864
Notes payable	15,000,000	-
Capital leases	303,705	517,698
Energy conservation loan	<u>-</u>	<u>530,000</u>
 Total	 <u>\$ 37,504,340</u>	 <u>\$ 11,893,562</u>

The Energy conservation loan is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The energy conservation loan was paid off in fiscal year 2004. At June 30, 2004 the District's overall legal debt margin was \$62,797,114 with an unvoted debt margin of \$907,188 and an unvoted energy conservation debt margin of \$8,164,695. The District maintains an A-1 bond rating. See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves, and to minimize the levy millage amounts needed periodically from the community's citizens. As the preceding information shows, the general fund cash balance was \$18,040,883 at June 30, 2004. The general fund cash balance includes the internal portion of the Suburban Health Consortiums investment pool along with the cash balance of rotary funds. On a GAAP-basis, these amounts are consolidated with the general fund. Fiscal year-end general fund cash balances were \$13,226,206, \$10,049,111, \$11,539,538, and \$7,850,746 at June 30 in Fiscal Years 2003, 2002, 2001, and 2000, respectively. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance, pass three consecutive operating levies in 1995, 1999, and 2002 at minimum millage amounts possible, and continue a quality, comprehensive educational program.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The Board's five-year projections indicated that the natural budget cycle needs would require additional operating income beginning in fiscal year 2003. In May 2002, the Board submitted, and the electors of the District approved (by a vote of 55.66% to 44.34%) a 6.9-mill ad valorem property tax for the purpose of current expenses for a continuing period of time. That levy generates approximately \$5,591,929 annually. By monitoring its five-year forecast, the Board was able to request voter approval early in the forecast cycle to lower the millage amount needed and not face possible reductions in educational programming. The Board is committed to utilizing the additional funds the District receives from the new levy to increase teacher salaries and purchase instructional materials, textbooks, and technology. It is anticipated that additional operating funds from local taxes will be necessary again in Fiscal Year 2006 or 2007. In April and May 2004, the Board announced a series of reductions in operating expenses that will take effect in Fiscal year 2005. These reductions of approximately \$2 million annually are necessary to minimize the size of the next operating levy that will be needed by the District, and to offset the lack of additional state funding needed to meet increasing costs.

Several significant legislative and judicial actions have occurred that will have a major impact on our School District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." The State has not yet developed a school-funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. There is concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. The biennial budget approved by the State for Fiscal Years 2004 and 2005 did not prove helpful to the funding situation for Lakewood City Schools. Changes to the State's school foundation funding formula did not bode well for additional revenue, and in fact, caused a decline in foundation funding for 2004. In spite of this, the Board is committed to upholding its levy promise to the community voters not to seek an additional operating levy for a period of three years.

Declining enrollment over the past ten years is a trend that has received, and will continue to receive, the attention of the Board and Administration. Reduced student counts lead to staffing cuts, excess building capacity, and less state funding. Each of these factors negatively impacts the operations of the District.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board empowered the "Designing Our Schools for the Next 50 Years" Committee to develop a plan for school building replacement/renovation, grade configuration, and building numbers and locations. The Board has worked with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan and project agreement, both of which are necessary in order to access state funds to assist with costs related to the plan. OSFC funding will comprise approximately 31% of the approved project costs; thus, it is important to capture this revenue source to relieve some of the financial burden from local taxpayers. The Lakewood community passed a \$93.6 million bond issue in March 2004, to begin the first construction phase of the facilities plan. Community and staff committees are busy at work to design two new elementary schools and two new middle schools. When the entire project is completed over the next six to eight years, the District will reduce its operations from 14 school buildings (10 elementary schools, 3 middle schools, and 1 high school) to 10 school buildings (7 elementary schools, 2 middle schools and 1 high school). The operational efficiencies created by this realignment of facilities will lessen millage amounts that will be needed for general fund operations in years after the facilities plan is completed.

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Contacting the District's Financial Management

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 37,670,905	\$ 624,884	\$ 38,295,789
Receivables:			
Taxes	44,793,576	-	44,793,576
Accounts	203,336	-	203,336
Intergovernmental	1,140,857	86,716	1,227,573
Accrued interest	118,201	-	118,201
Internal balances	1,400	(1,400)	-
Prepayments	69,817	-	69,817
Materials and supplies inventory	-	26,263	26,263
Unamortized bond issue costs	256,283	-	256,283
Capital assets:			
Land and construction in progress	2,945,964	-	2,945,964
Depreciable capital assets, net	11,714,356	163,868	11,878,224
Total capital assets, net	<u>14,660,320</u>	<u>163,868</u>	<u>14,824,188</u>
Total assets.	<u>98,914,695</u>	<u>900,331</u>	<u>99,815,026</u>
Liabilities:			
Accounts payable.	749,671	8,783	758,454
Accrued wages and benefits	6,859,160	140,323	6,999,483
Pension obligation payable.	1,524,210	164,126	1,688,336
Intergovernmental payable	371,711	1,918	373,629
Deferred revenue	29,232,577	-	29,232,577
Accrued interest payable	412,185	-	412,185
Long-term liabilities:			
Due within one year.	17,801,660	191	17,801,851
Due within more than one year	26,757,455	113,558	26,871,013
Total liabilities	<u>83,708,629</u>	<u>428,899</u>	<u>84,137,528</u>
Net Assets:			
Invested in capital assets, net of related debt.	2,184,245	163,868	2,348,113
Restricted for:			
Capital projects	13,664,967	-	13,664,967
Debt service.	3,063,589	-	3,063,589
Other purposes	831,737	-	831,737
Unrestricted (deficit)	<u>(4,538,472)</u>	<u>307,564</u>	<u>(4,230,908)</u>
Total net assets	<u>\$ 15,206,066</u>	<u>\$ 471,432</u>	<u>\$ 15,677,498</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular	\$ 24,284,814	\$ 670,554	\$ 456,771
Special	10,607,287	803,099	2,560,592
Vocational	4,543,182	834,729	199,564
Other	1,376,249	151,468	69,943
Support services:			
Pupil	4,665,166	3,041	449,152
Instructional staff	4,094,222	43,604	527,084
Board of education	106,375	-	-
Administration	3,983,910	3,764	447,483
Fiscal	1,480,898	2,897	13,356
Business	894,438	31,731	-
Operations and maintenance	7,308,762	222,551	18,518
Pupil transportation	131,327	-	-
Central	437,371	-	67,142
Operation of non-instructional services	1,208,715	424,504	115,263
Extracurricular activities	1,001,687	893,109	81,447
Intergovernmental	984,854	-	1,166,151
Interest and fiscal charges	1,303,433	-	-
Total governmental activities	68,412,690	4,085,051	6,172,466
Business-Type activities:			
Food service	1,947,066	1,047,069	777,162
Recreation	302,115	239,361	-
Total business-type activities	2,249,181	1,286,430	777,162
Totals	\$ 70,661,871	\$ 5,371,481	\$ 6,949,628

General Revenues:

Property taxes levied for:

- General purposes
- Debt service
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Miscellaneous

Total general revenues

Special item - pass through payment to library. Transfers

Total general revenues, transfers and special items

Change in net assets

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-Type Activities	Total
\$ (23,157,489)	\$ -	\$ (23,157,489)
(7,243,596)	-	(7,243,596)
(3,508,889)	-	(3,508,889)
(1,154,838)	-	(1,154,838)
(4,212,973)	-	(4,212,973)
(3,523,534)	-	(3,523,534)
(106,375)	-	(106,375)
(3,532,663)	-	(3,532,663)
(1,464,645)	-	(1,464,645)
(862,707)	-	(862,707)
(7,067,693)	-	(7,067,693)
(131,327)	-	(131,327)
(370,229)	-	(370,229)
(668,948)	-	(668,948)
(27,131)	-	(27,131)
181,297	-	181,297
(1,303,433)	-	(1,303,433)
(58,155,173)	-	(58,155,173)
-	(122,835)	(122,835)
-	(62,754)	(62,754)
-	(185,589)	(185,589)
(58,155,173)	(185,589)	(58,340,762)
44,893,042	-	44,893,042
3,208,079	-	3,208,079
25,422,037	-	25,422,037
308,187	6,554	314,741
501,282	-	501,282
74,332,627	6,554	74,339,181
(12,500,000)	-	(12,500,000)
(6,050)	6,050	-
61,826,577	12,604	61,839,181
3,671,404	(172,985)	3,498,419
11,534,662	644,417	12,179,079
\$ 15,206,066	\$ 471,432	\$ 15,677,498

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 18,040,883	\$ 2,277,941	\$ 12,575,574	\$ 3,562,760	\$ 36,457,158
Receivables:					
Taxes	39,010,286	5,783,290	-	-	44,793,576
Accounts	199,288	-	-	4,048	203,336
Intergovernmental	272,010	-	-	868,847	1,140,857
Accrued interest	118,201	-	-	-	118,201
Interfund loans	956,700	-	-	-	956,700
Prepayments	69,817	-	-	-	69,817
Restricted assets:					
Equity in pooled cash and cash equivalents	331,142	-	-	-	331,142
Total assets	<u>\$ 58,998,327</u>	<u>\$ 8,061,231</u>	<u>\$ 12,575,574</u>	<u>\$ 4,435,655</u>	<u>\$ 84,070,787</u>
Liabilities:					
Accounts payable	\$ 479,031	\$ 403	\$ 3,151	\$ 267,086	\$ 749,671
Accrued wages and benefits	6,639,536	-	-	219,624	6,859,160
Compensated absences payable	1,011,591	-	-	35,300	1,046,891
Pension obligation payable	881,526	-	-	43,910	925,436
Intergovernmental payable	95,061	-	-	27,889	122,950
Interfund loan payable	-	-	-	955,300	955,300
Deferred revenue	27,413,652	4,710,030	-	589,808	32,713,490
Total liabilities	<u>36,520,397</u>	<u>4,710,433</u>	<u>3,151</u>	<u>2,138,917</u>	<u>43,372,898</u>
Fund Balances:					
Reserved for encumbrances	793,373	-	6,838,170	269,840	7,901,383
Reserved for property tax unavailable for appropriation	11,552,120	1,059,253	-	-	12,611,373
Reserved for debt service	-	2,291,545	-	-	2,291,545
Reserved for prepayments	69,817	-	-	-	69,817
Unreserved, undesignated, reported in:					
General fund	10,062,620	-	-	-	10,062,620
Special revenue funds	-	-	-	934,354	934,354
Capital projects funds	-	-	5,734,253	1,092,544	6,826,797
Total fund balances	<u>22,477,930</u>	<u>3,350,798</u>	<u>12,572,423</u>	<u>2,296,738</u>	<u>40,697,889</u>
Total liabilities and fund balances	<u>\$ 58,998,327</u>	<u>\$ 8,061,231</u>	<u>\$ 12,575,574</u>	<u>\$ 4,435,655</u>	<u>\$ 84,070,787</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	40,697,889
<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.			14,660,320
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	2,561,870	
Accrued interest		96,957	
Accounts		232,278	
Intergovernmental revenue		589,808	
Total			3,480,913
Unamortized deferred charges are not recognized in the funds.			223,271
Unamortized premiums on bond issuances are not recognized in the funds.			(479,561)
Unamortized bond issuance costs are not recognized in the funds			256,283
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.			633,844
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		22,200,635	
Notes payable		15,000,000	
Compensated absences		5,751,594	
Capital lease obligations		303,705	
Pension obligation payable		598,774	
Accrued interest payable		412,185	
Total			(44,266,893)
Net assets of governmental activities		\$	15,206,066

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 44,026,256	\$ 3,178,023	\$ -	\$ -	\$ 47,204,279
Tuition.	2,675,337	-	-	61,616	2,736,953
Earnings on investments.	203,947	-	9,809	7,489	221,245
Extracurricular.	69,793	-	-	24,500	94,293
Classroom materials and fees	242,579	-	-	65,208	307,787
Other local revenues.	877,591	59,498	9,535	1,104,673	2,051,297
Intergovernmental - intermediate.	-	-	-	26,679	26,679
Intergovernmental - state	24,932,843	309,623	-	2,034,813	27,277,279
Intergovernmental - federal.	179,571	-	-	3,345,570	3,525,141
Total revenue	<u>73,207,917</u>	<u>3,547,144</u>	<u>19,344</u>	<u>6,670,548</u>	<u>83,444,953</u>
Expenditures:					
Current:					
Instruction:					
Regular	22,051,505	-	-	889,197	22,940,702
Special.	8,619,144	-	-	1,895,452	10,514,596
Vocational.	4,383,493	-	-	183,177	4,566,670
Other	1,311,971	-	-	66,728	1,378,699
Support Services:					
Pupil.	4,166,221	-	-	476,582	4,642,803
Instructional staff	3,359,720	-	-	608,830	3,968,550
Board of education	98,003	-	-	-	98,003
Administration.	3,438,544	-	-	444,468	3,883,012
Fiscal	1,442,936	403	-	18,078	1,461,417
Business	891,870	-	-	16,903	908,773
Operations and maintenance.	7,467,078	-	-	2,525	7,469,603
Pupil transportation	78,608	-	-	4,600	83,208
Central.	359,652	-	-	73,314	432,966
Operation of non-instructional services.	956,256	-	-	200,177	1,156,433
Extracurricular activities.	516,928	-	-	486,169	1,003,097
Facilities acquisition and construction	-	-	2,471,735	-	2,471,735
Intergovernmental pass through.	-	-	-	984,909	984,909
Debt service:					
Principal retirement	213,993	14,280,000	-	-	14,493,993
Interest and fiscal charges	25,211	837,916	-	-	863,127
Bond issuance costs	-	171,405	-	-	171,405
Total expenditures	<u>59,381,133</u>	<u>15,289,724</u>	<u>2,471,735</u>	<u>6,351,109</u>	<u>83,493,701</u>
Excess of revenues over (under) expenditures.	<u>13,826,784</u>	<u>(11,742,580)</u>	<u>(2,452,391)</u>	<u>319,439</u>	<u>(48,748)</u>

- - Continued

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):					
Transfers in	69,464	544,310	-	25,000	638,774
Transfers (out)	(569,310)	-	-	(6,983)	(576,293)
Accrued interest on bonds sold	-	31,744	-	-	31,744
Premium on bonds sold	-	171,405	-	-	171,405
Proceeds from sale of bonds	-	12,500,000	-	-	12,500,000
Proceeds from sale of notes	-	-	27,500,000	-	27,500,000
Total other financing sources (uses)	<u>(499,846)</u>	<u>13,247,459</u>	<u>27,500,000</u>	<u>18,017</u>	<u>40,265,630</u>
Special item:					
Pass through payment to library	-	-	(12,500,000)	-	(12,500,000)
Total special items	<u>-</u>	<u>-</u>	<u>(12,500,000)</u>	<u>-</u>	<u>(12,500,000)</u>
Net change in fund balances	13,326,938	1,504,879	12,547,609	337,456	27,716,882
Fund balances at beginning of year	<u>9,150,992</u>	<u>1,845,919</u>	<u>24,814</u>	<u>1,959,282</u>	<u>12,981,007</u>
Fund balances at end of year	<u>\$ 22,477,930</u>	<u>\$ 3,350,798</u>	<u>\$ 12,572,423</u>	<u>\$ 2,296,738</u>	<u>\$ 40,697,889</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	27,716,882
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$2,264,456) exceeds depreciation expense (\$1,227,988) in the current period.		1,036,468
Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		223,271
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		(479,561)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		256,283
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,113,447
Repayment of bonds, notes, loans and capital lease obligations are expenditures in the governmental funds, but the repayments reduce long-term liabilities on the statement of net assets.		14,493,993
Proceeds of bonds and notes are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(40,000,000)
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		(440,299)
Some expenses reported in the statement of activities, such as compensated absences, and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(288,368)
The internal service fund used by management to charge the costs of workers' compensation insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		39,288
Change in net assets of governmental activities	\$	<u>3,671,404</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 35,887,477	\$ 36,296,713	\$ 35,906,095	\$ (390,618)
Tuition.	2,404,252	2,431,668	2,880,303	448,635
Earnings on investments.	294,846	298,228	276,924	(21,304)
Extracurricular.	71,660	72,477	69,793	(2,684)
Classroom materials and fees	229,269	231,883	238,636	6,753
Other local revenues.	810,782	842,326	704,711	(137,615)
Intergovernmental.	24,403,357	24,681,635	25,112,412	430,777
Total revenue	<u>64,101,643</u>	<u>64,854,930</u>	<u>65,188,874</u>	<u>333,944</u>
Expenditures:				
Current:				
Instruction:				
Regular	25,214,445	23,694,849	23,111,283	583,566
Special.	8,292,086	8,611,932	8,606,773	5,159
Vocational.	4,634,240	4,586,753	4,438,236	148,517
Other	1,393,739	1,410,095	1,362,861	47,234
Support Services:				
Pupil.	4,119,625	4,171,710	4,149,702	22,008
Instructional staff	3,889,191	3,593,730	3,423,226	170,504
Board of education	92,992	106,156	99,070	7,086
Administration.	3,453,971	3,489,047	3,349,187	139,860
Fiscal	1,343,975	1,509,234	1,452,301	56,933
Business	1,044,478	1,175,799	988,060	187,739
Operations and maintenance.	8,822,482	8,531,937	7,666,300	865,637
Pupil transportation	144,070	154,045	101,442	52,603
Central.	461,866	473,020	372,492	100,528
Operation of non-instructional services	978,274	1,070,145	993,284	76,861
Extracurricular activities.	574,852	579,669	508,369	71,300
Total expenditures	<u>64,460,286</u>	<u>63,158,121</u>	<u>60,622,586</u>	<u>2,535,535</u>
Excess of revenues over (under) expenditures.	<u>(358,643)</u>	<u>1,696,809</u>	<u>4,566,288</u>	<u>2,869,479</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,276	3,313	1,863	(1,450)
Transfers in	59,180	59,855	69,464	9,609
Transfers (out)	(566,870)	(578,211)	(578,211)	-
Advances in.	296,618	300,000	866,500	566,500
Advances (out)	(300,000)	(300,000)	(956,700)	(656,700)
Total other financing sources (uses)	<u>(507,796)</u>	<u>(515,043)</u>	<u>(597,084)</u>	<u>(82,041)</u>
Net change in fund balance	(866,439)	1,181,766	3,969,204	2,787,438
Fund balance at beginning of year	12,232,185	12,232,185	12,232,185	-
Prior year encumbrances appropriated	1,289,430	1,289,430	1,289,430	-
Fund balance at end of year	<u>\$ 12,655,176</u>	<u>\$ 14,703,381</u>	<u>\$ 17,490,819</u>	<u>\$ 2,787,438</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Assets:		
Current assets:		
Equity in pooled cash and investments.	\$ 624,884	\$ 882,605
Receivables:		
Intergovernmental	86,716	-
Materials and supplies inventory	26,263	-
	737,863	882,605
Total current assets		
	737,863	882,605
Noncurrent assets:		
Depreciable capital assets, net	163,868	-
	163,868	-
Total assets		
	901,731	882,605
Liabilities:		
Accounts payable.	8,783	-
Accrued wages and benefits	140,323	-
Compensated absences.	191	-
Pension obligation payable.	164,126	-
Interfund loan payable	1,400	-
Intergovernmental payable	1,918	248,761
	316,741	248,761
Total current liabilities		
	316,741	248,761
Long-term liabilities:		
Compensated absences payable.	113,558	-
	113,558	-
Total liabilities		
	430,299	248,761
Net assets:		
Invested in capital assets, net of related debt .	163,868	-
Unrestricted.	307,564	633,844
	471,432	633,844
Total net assets		
	\$ 471,432	\$ 633,844

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Operating revenues:		
Sales/charges for services.	\$ 1,286,430	\$ 213,764
Other	-	1,761
	1,286,430	215,525
Operating expenses:		
Personal services.	1,261,831	-
Purchased services.	26,842	106,918
Materials and supplies	906,669	-
Depreciation	21,150	-
Other.	32,689	788
	2,249,181	107,706
Total operating expenses.	2,249,181	107,706
Operating income (loss)	(962,751)	107,819
Nonoperating revenues:		
Federal donated commodities	114,421	-
Interest revenue	6,554	-
Grants and subsidies.	662,741	-
	783,716	-
Total nonoperating revenues.	783,716	-
Income (loss) before transfers	(179,035)	107,819
Transfer in	6,050	-
Transfer (out).	-	(68,531)
	(172,985)	39,288
Change in net assets	(172,985)	39,288
Net assets at beginning of year (restated) .	644,417	594,556
Net assets at end of year	\$ 471,432	\$ 633,844

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from sales/charges for services.	\$ 1,286,430	\$ 213,764
Cash received from other operations.	-	7,648
Cash payments for personal services.	(1,138,492)	-
Cash payments for contractual services	(26,842)	(55,338)
Cash payments for materials and supplies	(822,955)	-
Cash payments for other expenses	(32,689)	(788)
	(734,548)	165,286
 Net cash provided by (used in) operating activities		
	(734,548)	165,286
 Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	596,330	-
Transfers in from other funds.	6,050	-
Transfers out to other funds	-	(69,352)
Cash received from interfund loans	1,400	821
	603,780	(68,531)
 Net cash provided by (used in) noncapital financing activities.		
	603,780	(68,531)
 Cash flows from investing activities:		
Interest received	6,554	-
	6,554	-
 Net cash provided by investing activities		
	6,554	-
 Net increase (decrease) in cash and cash equivalents		
	(124,214)	96,755
 Cash and cash equivalents at beginning of year		
	749,098	785,850
 Cash and cash equivalents at end of year		
	\$ 624,884	\$ 882,605

(Continued)

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (962,751)	\$ 107,819
Adjustments:		
Depreciation.	21,150	-
Federal donated commodities	114,421	-
Changes in assets and liabilities:		
Increase in materials and supplies inventory	(4,602)	-
Decrease in accounts receivable.	-	5,887
(Decrease) in accounts payable	(26,105)	-
Increase in accrued wages and benefits	13,863	-
Increase in intergovernmental payable	112	51,580
Increase in compensated absences payable	60,957	-
Increase in pension obligation payable	48,407	-
Net cash provided by (used in) operating activities	<u>\$ (734,548)</u>	<u>\$ 165,286</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	Investment Trust	Agency
	Scholarship	Trust	Agency
Assets:			
Equity in pooled cash and investments.	\$ 24,443	\$ 5,991,693	\$ 109,046
Receivables:			
Accrued interest	-	20,604	-
	24,443	6,012,297	\$ 109,046
Total assets	24,443	6,012,297	\$ 109,046
Liabilities:			
Intergovernmental payable	-	-	\$ 34,256
Due to students	-	-	74,790
	-	-	\$ 109,046
Total liabilities	-	-	\$ 109,046
Net Assets:			
Held in trust for scholarships	24,443	-	
Net assets available to pool participants	-	6,012,297	
	24,443	6,012,297	
Total net assets	\$ 24,443	\$ 6,012,297	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Investment Trust
Additions:		
Interest	\$ 303	\$ 57,311
Gifts and contributions.	1,000	-
Share transactions:		
Purchase of units	-	23,820,728
Redemption of units	-	(22,100,699)
	1,303	1,777,340
Deductions:		
Scholarships awarded	1,000	-
Distributions paid to participants	-	60,996
	1,000	60,996
Change in net assets	303	1,716,344
Net assets at beginning of year	24,140	4,295,953
Net assets at end of year.	\$ 24,443	\$ 6,012,297

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as the 39th largest by enrollment among the 613 public school districts in the State. It currently operates 14 instructional buildings, 1 administrative building and 1 garage. The District employs 374 non-certified and 521 certified full-time and part-time employees to provide services to approximately 6,773 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

**LAKESWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Lakeshore Northeast Ohio Computer Association - The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau among fourteen public school districts. The primary function of LNOCA is to provide data services to the 14 member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge, dependent upon the software packages used. In fiscal year 2004, \$82,386 was paid to LNOCA for services. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, OH 44125.

Ohio Schools Council - The Ohio Schools' Council Association (Council) is a jointly governed organization among 83 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 on the Board. In fiscal year 2004, the District paid \$1,317,221 to the Council. Financial information can be obtained by contacting Dr. David Cottrell, the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June, these estimated payments are compared to their actual usage for the year and any 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 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 12-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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 12 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.

RELATED ORGANIZATION

The Lakewood Public Library - The Lakewood Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Lakewood City District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Lakewood Public Library at 15425 Detroit Avenue, Lakewood, Ohio 44107.

INSURANCE PURCHASING POOLS

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school district pays an enrollment fee to the Plan to cover the costs of administering the program.

Suburban Health Consortium

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal. Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months' premiums at the Consortium Member's current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from the Treasurer of the Lakewood City School District (the Fiscal Agent) at 1470 Warren Road, Lakewood, Ohio 44107.

The District serves as fiscal agent and custodian of the Consortium, but is not accountable; therefore the operations of the Consortium have been excluded from the District's financial statements but the funds held on behalf of the Consortium are included as an investment trust fund.

B. Fund Accounting

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

GOVERNMENTAL FUNDS

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

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

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

Building Fund - The building fund is used to account for the receipts and expenditures related to all special bond funds in the District and to account for receipts and expenditures involved in the replacement or updating of equipment essential for the instruction of students in job skills. All proceeds from the sale of bonds, notes, or certificates of indebtedness, must be paid into this fund. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

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

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The investment trust fund is used to account for monies held on behalf of the Suburban Health Consortium for which the District is fiscal agent. The private-purpose trust fund accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and 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 District, available means expected to be received within sixty days of fiscal year-end.

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

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

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 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 fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original final Amended Certificates issued for fiscal year 2004.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2004. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final appropriations for fiscal year 2004.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to federal agency securities and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investment in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2004 amounted to \$203,947 which includes \$81,297 assigned from other District funds.

Based upon the reporting requirements of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the District is sponsoring an external investment pool. This account represents monies invested by the District on behalf of the Suburban Health Consortium as its' fiscal agent (See Note 19). During fiscal year 2004, funds were invested in federal agency securities and repurchase agreements. The Consortium's investment portfolio is presented in a separate investment trust fund.

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

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

G. Inventory

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

On fund financial statements, inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories consist of donated food, purchased food, and non-food supplies held for resale and are expensed when used.

H. Capital Assets

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District increased its capitalization threshold to \$5,000 and restated the balances to correct for errors and omissions the amounts reported in the prior year. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized for governmental activities.

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

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

I. 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 and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. Compensated Absences

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

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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 future retirement obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability in the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, property taxes unavailable for appropriation and debt service. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Parochial Schools

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

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service and charges for services for recreation and self-insurance programs. Operating expenses are necessary costs that are incurred to provide the good or service that is the primary activity of the fund.

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

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

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

T. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

U. 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. During fiscal 2004, the District issued bond anticipation notes for the Lakewood Public Library. The proceeds of the notes were passed through to the Lakewood Public Library; however, the liability associated with the notes remained with the District and were repaid with a bond issue supported by a voted tax levy. The pass through payment to the Lakewood Public Library is recorded as a special item on the governmental fund financial statements and on the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

The beginning net assets of the governmental and business-type activities have been restated to adjust for the increase in the District's capitalization threshold and to correct for errors and omissions the amounts reported in the prior year (See Note 8.A.). This prior period adjustment had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets, June 30, 2003	\$ 11,198,629	\$ 616,575
Adjustment for capital assets	<u>336,033</u>	<u>27,842</u>
Restated net assets, June 30, 2003	<u>\$ 11,534,662</u>	<u>\$ 644,417</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The beginning net assets of the enterprise funds as reported on the proprietary funds statement of net assets are the business-type activities and therefore have been restated as stated above.

B. Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2004 included the following individual fund deficits:

Nonmajor Funds

Tech Prep	\$ 13
Title VI-B	34,271
Preschool Grants for Handicapped	2,267
Recreation	50,439

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

C. Compliance

The District had funds during the year that had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code 5705.41. The District also had funds with deficit cash balances during the year, contrary to Ohio Revised Code 5705.10, which were corrected by year-end.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statute classifies monies held by the District into three categories.

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

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

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

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At fiscal year-end, the District had \$2,335 in undeposited cash on hand, which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Investments".

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Deposits: At year-end, the carrying amount of the District's deposits was \$9,100,776 and the bank balance was \$9,400,942. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$9,300,942 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be placed as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Federal agency securities	\$ 35,243,094	\$ 35,243,094	\$ 35,243,094
Total	<u>\$ 35,243,094</u>		
Investment in state treasurer's investment pool		<u>74,766</u>	<u>74,766</u>
Total investments		<u>\$ 35,317,860</u>	<u>\$ 35,317,860</u>

The federal agency securities have maturity dates ranging from July, 2004 through March, 2006.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 44,420,971	\$ -
Investments of the cash management pool:		
Investments in STAR Ohio	(74,766)	74,766
Federal agency securities	(35,243,094)	35,243,094
Cash on hand	(2,335)	-
GASB Statement No. 3	\$ 9,100,776	\$ 35,317,860

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2004, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 955,300
General	Recreation fund	1,400
		\$ 956,700

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balances between governmental activities and business-type activities are reported as internal balances on the statement of net assets.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

	Amount
Transfers from general fund to:	
Nonmajor governmental funds	\$ 25,000
Debt service fund	544,310
Transfers from internal service funds to:	
General fund	68,531
Transfers from nonmajor governmental funds to:	
General fund	933
Recreation fund	6,050
	\$ 644,824

Interfund transfers between governmental funds are eliminated on the government-wide financial statements. Net transfers between governmental activities and business-type activities are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. 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 District prior to June 30.

The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$11,552,120 in the general fund and \$1,059,253 in the debt service fund. These amounts have been recorded as revenue. The amounts that were available as an advance at June 30, 2003 was \$3,468,831 in the general fund and \$177,899 in the debt service fund. 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, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 760,550,790	94.49	\$ 850,214,516	95.04
Public Utility Personal	16,001,560	1.99	16,001,560	1.79
Tangible Personal Property	<u>28,345,579</u>	<u>3.52</u>	<u>28,345,579</u>	<u>3.17</u>
Total	<u>\$ 804,897,929</u>	<u>100.00</u>	<u>\$ 894,561,655</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 97.83		\$ 97.93	
Debt Service	2.42		3.67	

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes - current and delinquent	\$ 44,793,576
Accounts	203,336
Intergovernmental	1,140,857
Accrued interest	118,201

Business-Type Activities

Intergovernmental	<u>86,716</u>
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Total receivables	<u><u>\$ 46,342,686</u></u>
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Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within subsequent years.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS

A. The balance of the District's capital assets have been restated due to the change in capitalization threshold from \$500 to \$5,000 and to correct for errors and omissions the amounts reported in the prior year. This restatement had the following effect on the capital assets as previously reported:

	<u>Balance 06/30/03</u>	<u>Adjustment</u>	<u>Restated Balance 06/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 944,350	\$ -	\$ 944,350
Construction in progress	<u>142,844</u>	<u>-</u>	<u>142,844</u>
Total capital assets, not being depreciated	<u>1,087,194</u>	<u>-</u>	<u>1,087,194</u>
Capital assets, being depreciated:			
Land improvements	3,116,305	-	3,116,305
Building/improvements	26,174,405	-	26,174,405
Furniture/equipment	12,488,155	(1,135,344)	11,352,811
Vehicles	<u>1,019,977</u>	<u>(41,551)</u>	<u>978,426</u>
Total capital assets, being depreciated	<u>42,798,842</u>	<u>(1,176,895)</u>	<u>41,621,947</u>
Less: accumulated depreciation			
Land improvements	(2,238,032)	68,541	(2,169,491)
Building/improvements	(18,296,397)	511,279	(17,785,118)
Furniture/equipment	(9,355,691)	885,359	(8,470,332)
Vehicles	<u>(708,097)</u>	<u>47,749</u>	<u>(660,348)</u>
Total accumulated depreciation	<u>(30,598,217)</u>	<u>1,512,928</u>	<u>(29,085,289)</u>
Governmental activities capital assets, net	<u>\$ 13,287,819</u>	<u>\$ 336,033</u>	<u>\$ 13,623,852</u>
Business-Type Activities			
Capital assets, being depreciated:			
Furniture/equipment	\$ 819,125	\$ (194)	\$ 818,931
Less: accumulated depreciation	<u>(661,949)</u>	<u>28,036</u>	<u>(633,913)</u>
Business-type activities capital assets, net	<u>\$ 157,176</u>	<u>\$ 27,842</u>	<u>\$ 185,018</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 944,350	\$ -	\$ -	\$ 944,350
Construction in progress	<u>142,844</u>	<u>1,858,770</u>	<u>-</u>	<u>2,001,614</u>
Total capital assets, not being depreciated	<u>1,087,194</u>	<u>1,858,770</u>	<u>-</u>	<u>2,945,964</u>
Capital assets, being depreciated:				
Land improvements	3,116,305	-	-	3,116,305
Building/improvements	26,174,405	-	-	26,174,405
Furniture/equipment	11,352,811	349,141	-	11,701,952
Vehicles	<u>978,426</u>	<u>56,545</u>	<u>-</u>	<u>1,034,971</u>
Total capital assets, being depreciated	<u>41,621,947</u>	<u>405,686</u>	<u>-</u>	<u>42,027,633</u>
Less: accumulated depreciation				
Land improvements	(2,169,491)	(66,144)	-	(2,235,635)
Building/improvements	(17,785,118)	(498,202)	-	(18,283,320)
Furniture/equipment	(8,470,332)	(611,641)	-	(9,081,973)
Vehicles	<u>(660,348)</u>	<u>(52,001)</u>	<u>-</u>	<u>(712,349)</u>
Total accumulated depreciation	<u>(29,085,289)</u>	<u>(1,227,988)</u>	<u>-</u>	<u>(30,313,277)</u>
Governmental activities capital assets, net	<u>\$ 13,623,852</u>	<u>\$ 1,036,468</u>	<u>\$ -</u>	<u>\$ 14,660,320</u>
Business-Type Activities				
Capital assets, being depreciated:				
Furniture/equipment	\$ 818,931	\$ -	\$ -	\$ 818,931
Less: accumulated depreciation	<u>(633,913)</u>	<u>(21,150)</u>	<u>-</u>	<u>(655,063)</u>
Business-type activities capital assets, net	<u>\$ 185,018</u>	<u>\$ (21,150)</u>	<u>\$ -</u>	<u>\$ 163,868</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 741,266
Special	42,174
Vocational	56,453
Support Services:	
Pupil	7,203
Instructional staff	149,240
Board of education	8,417
Administration	23,149
Fiscal	6,090
Business	9,919
Operations and maintenance of plant	13,283
Pupil transportation	48,467
Central	3,514
Operation of non-instructional services	<u>118,813</u>
Total depreciation expense	<u>\$ 1,227,988</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Governmental activities capital assets consisting of computer equipment and the school buses have been capitalized in the amount of \$776,760. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2004 fiscal year totaled \$213,993 and \$25,211, respectively. These amounts are reported as debt service payments of the general fund.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

Year Ending June 30	Amount
2005	\$ 239,205
2006	20,501
2007	20,502
2008	20,502
2009	20,502
2010	11,298
Total minimum lease payment	332,510
Less: amount representing interest	(28,805)
Present value of minimum lease payments	\$ 303,705

NOTE 10 - LONG-TERM OBLIGATIONS

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

B. Series 2002 Refunding General Obligation Bonds

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

The refunding issue is comprised of both current interest bonds, par value \$4,020,000, and capital appreciation bonds, par value \$1,150,000. The average interest rate on the current interest bonds is 2.79%. The capital appreciation bonds mature each December 1, 2012 and 2013 (effective interest 11.279%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$364,993. Total accreted interest of \$63,957 has been included in the statement of activities.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Series 2001 Refunding General Obligation Bonds

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

The refunding issue is comprised of both current interest bonds, par value \$2,875,000, and capital appreciation bonds, par value \$990,000. The average interest rate on the current interest bonds is 4.70%. The capital appreciation bonds mature each December 1, 2008 through 2010 (effective interest 14.489%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$304,996. Total accreted interest of \$156,689 has been included in the statement of activities at June 30, 2004.

D. Series 2003 Library Improvement

On December 1, 2003, the District issued \$12,500,000 in general obligation bonds on behalf of the Lakewood Public Library. The bonds were placed in the name of the Lakewood City School District. In accordance with Ohio Revised Code Section 3375.43 - 45, local libraries are not allowed to issue debt or levy taxes in their name, therefore, after School Board approval, the levy was placed in the name of Lakewood City School District. The District, acting as taxing authority for the Library, collects levied taxes and makes required debt service payments. The bonds were issued to retire bond anticipation notes that were also issued in fiscal 2004 (See Note 11). The library improvement bonds are a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The bonds mature on December 1, 2023 and bear an annual interest rate of 1.20% - 5.00%. The source of payment is derived from a current bonded debt tax levy.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. The following is a summary of the bond and loan activity for fiscal 2004:

	<u>Balance</u> <u>06/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/04</u>	<u>Amounts</u> <u>due in</u> <u>One Year</u>
<u>General Obligation Bonds:</u>					
Series 1986, improvement 7.875%, 12/01/06 maturity	\$ 2,520,000	\$ -	\$ (630,000)	\$ 1,890,000	\$ 630,000
Series 1993, improvement 2.5%, 12/01/13 maturity	320,000	-	(320,000)	-	-
Series 1994, improvement 6.902%, 12/01/15 maturity	375,000	-	(180,000)	195,000	195,000
Series 2003, library improvement 1.20 - 4.50%, 12/01/23 maturity	-	12,500,000	-	12,500,000	200,000
Series 2002, refunding current interest bonds 2.79%, 12/01/11 maturity	4,020,000	-	(105,000)	3,915,000	440,000
Series 2002, refunding capital appreciation bonds 11.279% (average effective) 12/01/12 and 13	364,993	-	-	364,993	-
Series 2002, refunding capital appreciation bonds accrued interest	19,452	44,505	-	63,957	-
Series 2001, refunding current interest bonds 4.14%, 12/01/15 maturity	2,825,000	-	(15,000)	2,810,000	85,000
Series 2001, refunding capital appreciation bonds 14.489% (average effective) 12/01/08,09, and 10 maturity	304,996	-	-	304,996	-
Series 2001, refunding capital appreciation bonds accrued interest	96,423	60,266	-	156,689	-
Total, general obligation bonds	<u>\$ 10,845,864</u>	<u>\$ 12,604,771</u>	<u>\$ (1,250,000)</u>	<u>\$ 22,200,635</u>	<u>\$ 1,550,000</u>
<u>Loans Payable:</u>					
Energy conservation loan 3.35%, 12/01/03 maturity	<u>\$ 530,000</u>	<u>\$ -</u>	<u>\$ (530,000)</u>	<u>\$ -</u>	<u>\$ -</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

F. Principal and interest requirements to retire general obligation bonds, refunding bonds, and the energy conservation loan outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2005	\$ 1,025,000	\$ 649,473	\$ 1,674,473
2006	920,000	591,464	1,511,464
2007	980,000	534,964	1,514,964
2008	360,000	501,407	861,407
2009	370,000	492,858	862,858
2010 - 2014	2,415,000	2,268,337	4,683,337
2015 - 2019	3,480,000	1,683,625	5,163,625
2020 - 2024	5,035,000	713,475	5,748,475
Total	<u>\$ 14,585,000</u>	<u>\$ 7,435,603</u>	<u>\$ 22,020,603</u>

Fiscal Year Ending June 30	Current Interest Refunding Bonds (Series 2001)			Capital Appreciation Refunding Bonds (Series 2001)		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 85,000	\$ 125,935	\$ 210,935	\$ -	\$ -	\$ -
2006	295,000	118,874	413,874	-	-	-
2007	305,000	107,395	412,395	-	-	-
2008	315,000	95,069	410,069	-	-	-
2009	-	88,690	88,690	-	-	-
2010 - 2014	1,040,000	368,725	1,408,725	116,170	213,830	330,000
2015 - 2016	770,000	37,730	807,730	188,826	471,174	660,000
Total	<u>\$ 2,810,000</u>	<u>\$ 942,418</u>	<u>\$ 3,752,418</u>	<u>\$ 304,996</u>	<u>\$ 685,004</u>	<u>\$ 990,000</u>

Fiscal Year Ending June 30	Current Interest Refunding Bonds (Series 2002)			Capital Appreciation Refunding Bonds (Series 2002)		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 440,000	\$ 113,625	\$ 553,625	\$ -	\$ -	\$ -
2006	450,000	104,712	554,712	-	-	-
2007	465,000	93,837	558,837	-	-	-
2008	475,000	80,901	555,901	-	-	-
2009	495,000	65,731	560,731	-	-	-
2010 - 2014	1,590,000	89,307	1,679,307	364,993	785,007	1,150,000
Total	<u>\$ 3,915,000</u>	<u>\$ 548,113</u>	<u>\$ 4,463,113</u>	<u>\$ 364,993</u>	<u>\$ 785,007</u>	<u>\$ 1,150,000</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

	<u>Balance</u> <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/04</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 6,278,320	\$ 1,064,778	\$ (544,613)	\$ 6,798,485	\$ 1,027,643
General obligation bonds payable	10,845,864	12,604,771	(1,250,000)	22,200,635	1,550,000
Loans payable	530,000	-	(530,000)	-	-
Notes payable	-	27,500,000	(12,500,000)	15,000,000	15,000,000
Capital lease obligation	<u>517,698</u>	<u>-</u>	<u>(213,993)</u>	<u>303,705</u>	<u>224,017</u>
Total governmental activities long-term liabilities	<u>\$ 18,171,882</u>	<u>\$ 41,169,549</u>	<u>\$ (15,038,606)</u>	<u>\$ 44,302,825</u>	<u>\$ 17,801,660</u>
Less: Unamortized deferred charge on refunding				(223,271)	
Add: Unamortized premium on refunding				<u>479,561</u>	
Total on statement of net assets				<u>\$ 44,559,115</u>	
Business-Type Activities:					
Compensated absences	<u>\$ 52,792</u>	<u>\$ 60,957</u>	<u>\$ -</u>	<u>\$ 113,749</u>	<u>\$ 191</u>
Total business-type activities long-term liabilities	<u>\$ 52,792</u>	<u>\$ 60,957</u>	<u>\$ -</u>	<u>\$ 113,749</u>	<u>\$ 191</u>

Compensated absences will be paid from the fund from which the employee is paid. See Note 11 for a description of the District's notes payable.

H. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$61,660,712 (including available funds of \$3,350,798) an unvoted debt margin of \$894,562.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - NOTES PAYABLE

The District had the following note activity during fiscal 2004:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/04</u>
Library Improvement	07/30/03	03/16/04	\$ -	\$ 12,500,000	\$ (12,500,000)	\$ -
School Improvement	4/28/2004	9/14/2004	-	15,000,000	-	15,000,000
Total			<u>\$ -</u>	<u>\$ 27,500,000</u>	<u>\$ (12,500,000)</u>	<u>\$ 15,000,000</u>

Library Improvement Notes

A tax levy was passed in the District's name for the Lakewood Public Library (the "Library"). In accordance with Ohio Revised Code Section 3375.43 - 45, local libraries are not allowed to issue debt or levy taxes in their name, therefore, after School Board approval, the levy was placed in the name of Lakewood City School District. The District acts as taxing authority for the Library, collects levied taxes and makes required debt service payments. The general obligation bonds were issued in fiscal year 2004 (See Note 10.D). On July 30, 2003 the District issued bond anticipation notes in the amount of \$12,500,000. Although the bond anticipation notes were issued on behalf of the Library, and the proceeds of the bond anticipation notes were transferred to the Board of Trustees of the Library, the bond anticipation notes constitute indebtedness of the District. These notes were retired on March 16, 2004 with the proceeds of the bond issue (See Note 10.D.).

School Improvement Notes

On April 28, 2004, the District issued \$15,000,000 in bond anticipation notes to begin various construction projects. These notes will be retired by a bond issue to be received in fiscal 2005 (See Note 21). Since these notes were financed on a long-term basis prior to the issuance of the financial statements, they will be included in the District's schedule of long-term obligations (See Note 10.G.) in accordance with FASB Statement No. 6 "Classification of Short-Term Obligations Expected to Be Refinanced".

NOTE 12 - OTHER EMPLOYEE BENEFITS

Early Retirement Incentive

The District Board of Education has approved an early retirement incentive program for certified and classified employees. The Board will purchase, from STRS and SERS, respectively, additional service credit for those employees who elect to participate in the plan. Participation was open to employees who were at least 50 years old, qualified for retirement with the years purchased by the Board, and agreed to retire either at the end of fiscal year 2001 or at the end of fiscal year 2002. The enrollment period for the ERIP was between February 12, 2001 and February 16, 2001. The credit could not exceed the lesser of three years or one-fifth of each member's total Ohio service. The Board did not limit the number of employees participating in the plan in any one year. The total liability for the ERIP remaining at June 30, 2004 was \$845,541. The liability is recorded in the statement of net assets included in the government-wide financial statements. This obligation will ultimately be paid from the fund in which the employee was paid.

In addition, employees who elect to participate in the ERIP will receive a lump sum payment for their unused sick leave, to the extent allowed by the current labor agreement. June 30, 2001 retirees received their severance payment in September, 2004, while June 30, 2002 retirees will receive their severance in September, 2005.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted with Wausau National Insurance Company for property, fleet, and inland marine insurance coverage. The District obtains general liability insurance coverage through the Ohio School Plan. The Ohio School Plan was formed in conjunction with the Ohio Revised Code 2744 which allows public entities to join together for coverage purposes. The Ohio School Plan is reinsured by ACE/Tempest Re, Odyssey Re and OBE. There is no deductible for general liability and a \$2,500 deductible for error and omissions. The limitations of coverages are as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$93,197,020
Inland Marine Coverage (\$1,000 deductible)	62,962
Boiler and Machinery (\$1,000 per location deductible)	5,000,000
Crime Insurance (\$1,000 deductible each coverage)	Various
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	50,000
General Liability	
Per occurrence	3,000,000
Aggregate per year	5,000,000

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

B. Worker's Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

Prior to 1995, the District participated in the State Workers' Compensation retrospective rating and payment system. The plan involved the payment of a minimum premium for administrative services and stop-loss coverage, plus the actual claim costs for employees who had been injured. During 1995, the District switched to the traditional, fully-funded plan provided by the State. The District retains a liability for claims incurred while the District participated in the plan. A third party, Navisource, reviews all claims, which are then paid by the District. There was no liability at June 30, 2004 for the retrospective rating plan.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 13 - RISK MANAGEMENT - (Continued)

C. Group Health and Dental Insurance

For fiscal 2004, the District was a participant in the Suburban Health Consortium (the "Consortium") to provide employee health, dental, vision and prescription drug benefits. The Consortium is administered by Medical Mutual. Payments are made to the Consortium for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the Consortium is the Lakewood City School District. The Treasurer of the Lakewood City School District pays monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges. The entire risk of loss transfers to the Consortium upon payment of the premiums.

The District's portion of the monthly insurance premiums is as follows:

	Board Share of Premium			
	Full-Time	Part-Time	Full-Time	Part-Time
	Family	Family	Single	Single
Health:				
Suburban Health Consortium	\$ 604.13	\$ 302.07	\$ 254.37	\$ 127.19
Kaiser (HMO)	597.21	298.61	251.46	125.73
Prescription drug	187.28	93.64	78.85	39.43
Dental	83.14	41.57	32.10	16.05
Vision	9.40	4.70	2.32	1.16

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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 adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,389,957, \$1,393,634, and \$1,339,446, respectively; 43.77% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$781,560 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to 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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$4,420,305, \$4,368,855, and \$4,276,364, respectively; 84.08% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$703,796, represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$34,4747 made by the District and \$73,216 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$315,736 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.74 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$15,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$663,817 during the 2004 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 3,969,204
Net adjustment for revenue accruals	8,019,043
Net adjustment for expenditure accruals	303,830
Net adjustment for other sources/uses	97,239
Adjustment for encumbrances	<u>937,622</u>
GAAP basis	<u>\$ 13,326,938</u>

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ (2,148,232)	\$ -	\$ 331,142
Current year set-aside requirement	952,389	952,389	-
Qualifying disbursements	<u>(1,777,440)</u>	<u>(1,190,308)</u>	<u>(331,142)</u>
Total	<u>\$ (2,973,283)</u>	<u>\$ (237,919)</u>	<u>\$ -</u>
Balance carried forward to FY 2005	<u>\$ (2,973,283)</u>	<u>\$ -</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

Although the District had offsets and qualifying disbursements during the year that reduced the capital maintenance set-aside amount below zero, this extra amount may not be used to reduce the set-aside requirements of future years. This negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 19 - EXTERNAL INVESTMENT POOL

The District serves as fiscal agent for the Suburban Health Consortium (the "Consortium") which is a legally separate entity. The District pools the moneys of the Consortium with the District's for investment purposes. Investments are not specifically purchased in the name of the Consortium. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The Consortium is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns.

The Consortium issues stand alone financial statements. These financial statements can be obtained from the Treasurer of the Lake City School District (the Fiscal Agent) at 1470 Warren Road, Lakewood, Ohio 44107.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 20 - CONTRACTUAL COMMITMENTS

The District had the following contractual commitments outstanding at fiscal year-end:

<u>Contractor</u>	<u>Purpose</u>	<u>Contract Awarded</u>	<u>Amount Paid In FY04</u>	<u>Contractual Commitment</u>
UPS/GPD	Architect	\$ 3,439,857	\$ (77,122)	\$ 3,362,735
Turner/Regency	Construction Manager	<u>3,391,785</u>	<u>(65,785)</u>	<u>3,326,000</u>
Total		<u>\$ 6,831,642</u>	<u>\$ (142,907)</u>	<u>\$ 6,688,735</u>

NOTE 21 - SIGNIFICANT SUBSEQUENT EVENTS

On July 1, 2004, the District issued \$65,000,000 in general obligation school improvement bonds. The issue is comprised of \$41,780,000 in current interest serial bonds, \$21,960,000 in current interest term bonds and \$1,260,000 in capital appreciation bonds. The proceeds of the bond issue will be used for the purpose of constructing, adding to, renovating, remodeling, furnishing, equipping and otherwise improving School District buildings and facilities and acquiring, equipping and otherwise improving real estate and interests therein for school purposes.

This bond represents the first installment of a \$93,660,000 bond issuance that was approved by the voters on March 2, 2004. The District is expected to participate in the Ohio Schools Facilities Commission Expedited Local Partnership Program. Under this program, the District will receive credit for the State's share of the first phase in determining the remaining local share of the remaining cost of the project when the District becomes eligible to participate in the Commission's Classroom Facilities Assistance program (currently expected to be in 2009). The District currently expects that it will ask voters to approve the remaining local share of later phases at an election or elections in 2007 and/or 2009.

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

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>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$105,949		\$105,949
School Breakfast Program	044198 05 PU 03	10.553	\$4,493		\$4,493	
	044198 05 PU 04		30,746		30,746	
School Lunch Program	044198 LL P4 03	10.555	66,502		66,502	
	044198 LL P4 04		418,855		418,855	
Total Child Nutrition Cluster:			520,596	105,949	520,596	105,949
ECS / Family Home Day Care Food	044198 CCMM -2003	10.558	52,103		52,421	
Child Care Food Program	044198 CCMO -2004		6,496		6,496	
Total CFDA			58,599	0	58,917	0
TOTAL U.S. DEPARTMENT OF AGRICULTURE			579,195	105,949	579,513	105,949
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States						
Title VI-B	044198 6B SF 03 P	84.027	0		57,786	
	044198 6B SF 04 P		1,027,148		995,935	
Parent / Mentor Project	044198 6B PM 03 P		0		4,678	
	044198 6B PM 04 P		25,000		20,894	
Total CFDA			1,052,148	0	1,079,293	0
Special Education - Preschool Grants	044198 PG S1 03 P	84.173	0		7,601	
	044198 PG S1 04 P		76,480		64,484	
Total CFDA			76,480	0	72,085	0
Total Special Education Cluster			1,128,628	0	1,151,378	0
Adult Education State Grant Program	044198 AB S1 03	84.002	0		8,544	
	044198 AB S1 03 C		0		160	
	044198 AB S1 04		53,304		46,934	
	044198 AB S2 03		0		681	
	044198 AB S2 04		35,480		33,148	
Total CFDA			88,784	0	89,467	0
Title I, Part A, ESEA	044198 C1 S1 03	84.010	61,781		126,828	
	044198 C1 S1 04		1,021,867		926,287	
Total CFDA			1,083,648	0	1,053,115	0
Vocational Education Basic Grants to States	044198 20 C1 03	84.048	27,162		95,386	
	044198 20 C1 04		166,650		142,412	
Total CFDA			193,812	0	237,798	0
Safe and Drug Free Schools State Grants	044198 DR S1 03	84.186	11,910		12,778	
	044198 DR S1 04		87,768		57,057	
Total CFDA			99,678	0	69,835	0
Innovative Educational Program Strategies	044198 C2 S1 03	84.298	0		191	
	044198 C2 S1 04		33,354		47,835	
Total CFDA			33,354	0	48,026	0
Technology Literacy Challenge Grant	044198 TJ S1 03	84.318	11,844		15,378	
	044198 TJ S1 04		23,714		23,569	
Total CFDA			35,558	0	38,947	0

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

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 EDUCATION (Continued)						
<i>Passed Through Ohio Department of Education (Continued)</i>						
Comprehensive School Reform	044198 RF S2 02	84.332	42,505		53,082	
	044198 RF S3 03		9,000		7,541	
Total CFDA			51,505	0	60,623	0
America's Career Resource Network Grant	044198 OE 00 04	84.346	10,000		6,966	
Total CFDA			10,000	0	6,966	0
Assistive Technology Infusion Project	044198 AT S4 02	84.352	10,104		10,104	
Total CFDA			10,104	0	10,104	0
Title III English Proficiency	044198 T3 S1 03	84.365	28,687		43,242	
	044198 T3 S1 04		90,670		83,375	
Total CFDA			119,357	0	126,617	0
Improving Teacher Quality	044198 TR S1 03	84.367			49,722	
	044198 TR S1 04		256,879		225,965	
Total CFDA			256,879	0	275,687	0
Refugee Grant	044198 R1 S1 02	93.576	0		1,000	
Total CFDA			0	0	1,000	0
TOTAL U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			3,111,307	0	3,169,563	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through the Ohio Department of Mental Retardation & Development Disabilities:</i>						
Medical Assistance - Medicaid Title XIX	N/A	93.778	362,324		362,324	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			362,324	0	362,324	0
NATIONAL SCIENCE FOUNDATION						
Direct Grant						
Education and Human Resources	N/A	47.076	0		700	
TOTAL NATIONAL SCIENCE FOUNDATION			0	0	700	0
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT						
<i>Passed through City of Lakewood</i>						
Community Development Block Grant						
Camp Can Do and Satisfaction through Opportunity Program (S.T.O.P.)	B 03 MC39 0007	14.218	2,430		2,430	
			2,430	0	2,430	0
TOTAL FEDERAL ASSISTANCE			\$4,055,256	\$105,949	\$4,114,530	\$105,949

The accompanying notes to this schedule are an integral part of this schedule.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures and Receipts (Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION PROGRAM

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Values may change from month to month and are entirely subjective. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C – NATIONAL SCHOOL BREAKFAST, LUNCH, AND CHILD CARE FOOD PROGRAM

Federal monies received by the District for these programs are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Education
Lakewood City School District
Cuyahoga County
1470 Warren Road
Lakewood, Ohio 44107

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Lakewood City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 18, 2004, wherein we noted the City restated capital assets and changed its method of accounting for capital assets. We did not audit the financial statements of the Investment Trust Fund, a non-major fiduciary fund, which represents 48% of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors, whose report thereon has been furnished to us. Our opinion on the District's basic financial statements, insofar as it relates to amounts included for the Investment Trust Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 18, 2005.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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 for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 18, 2005.

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



Betty Montgomery
Auditor of State

March 18, 2005



Auditor of State Betty Montgomery

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

Board of Education
Lakewood City School District
Cuyahoga County
1470 Warren Road
Lakewood, Ohio 44107

Compliance

We have audited the compliance of the Lakewood City School District, Cuyahoga 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 are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

March 18, 2005

LAKWOOD CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 JUNE 30, 2004

SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 Section .505

1. SUMMARY OF AUDITOR'S RESULTS
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(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 non-compliance at the financial statement level (GAGAS)?	Yes
(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 Sec. .510?	No
(d)(1)(vii)	Major Programs (list)	Special Education Cluster: Special Education Grants to States, CFDA #84.027, Special Education - Pre-School Grants, CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2004**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 Section .505
(Continued)**

2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2004-001
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Ohio Rev. Code Section 5705.41 (B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Board of Education may not exceed appropriations at the legal level for all funds. The District's legal level of control is at the fund level for all funds. The following fund, which was corrected at year end, had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control at December 31, 2003:

Fund	Appropriations	Expenditures Plus Encumbrances	Variance
002	\$5,345,752	\$14,537,600	\$9,191,848

We recommend the District verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditure plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirements.

FINDING NUMBER	2004-002
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Ohio Rev. Code Section 5705.10 requires that money paid into a fund shall be used only for the purposes for which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds, which were corrected at year end, had a deficit fund balance as of December 31, 2003:

Fund	Amount
006	(\$260,969)
013	(16,155)
439	(214,063)
516	(87,486)
572	(142,510)
573	(2,650)
584	(5,371)
587	(5,600)

We recommend the District review the activities of these funds periodically to ensure that adequate fund balances are maintained and to ensure that monies paid into a fund are used for the purposes for which the fund is established.

LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2004

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 Section .505
(Continued)

3. FINDING FOR FEDERAL AWARDS

None.

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**LAKWOOD CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 JUNE 30, 2004**

**SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A -133 § .315 (b)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.41 (B) & (D) - Expenditures plus encumbrances in excess of appropriations	No	Reissued as finding 2004-001.
2003-002	Ohio Rev. Code Section 5705.39 – Appropriations in Excess of Estimated Resources	No	Reissued as management letter comment.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

LAKWOOD CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 12, 2005**