

**Mary Taylor, CPA**  
Auditor of State



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FOR THE YEAR ENDED JUNE 30, 2006**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lakewood City School District, Cuyahoga County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

May 4, 2007

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets increased \$918,478. Net assets of governmental activities increased \$1,040,244, which represents a 6.95% increase from 2005. Net assets of business-type activities decreased \$121,766 or 30.38% from 2005.
- Governmental activities general revenues accounted for \$71,918,734 in revenue or 87.13% of all governmental activities revenues. Governmental activities program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,627,701 or 12.87% of total governmental activities revenues of \$82,546,435.
- The District had \$79,956,404 in expenses and a special item of \$1,549,787 related to governmental activities; only \$10,627,701 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 \$71,918,734 were adequate to provide for these programs.
- The District had \$2,179,080 in expenses related to business-type activities; a total of \$2,042,641 was offset by program specific charges for services, grants and contributions. General revenues include only interest earnings of \$14,673. Total revenues were not adequate to provide for these programs by \$121,766 resulting in a decrease to net assets from \$400,806 to \$279,040.
- The District's major governmental funds are the general fund, debt service fund and building fund. The general fund had \$64,062,018 in revenues and \$65,970,565 in expenditures, a special item and other financing uses. The general fund's fund balance decreased \$1,908,547 from \$19,693,441 to \$17,784,894.
- Another of the District's major governmental funds is the debt service fund. The debt service fund had \$23,841,618 in revenues and other financing sources and \$22,890,058 in expenditures. The debt service fund's fund balance increased \$951,560 from \$4,405,038 to \$5,356,598.
- The District's other major governmental fund is the building fund. The building fund had \$2,402,747 in revenues and \$22,806,525 in expenditures. The building fund's fund balance decreased \$20,403,778 from \$71,683,396 to \$51,279,618.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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.

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 2006?" 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.

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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.

***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 20-26 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 27-29 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 32-68 of this report.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

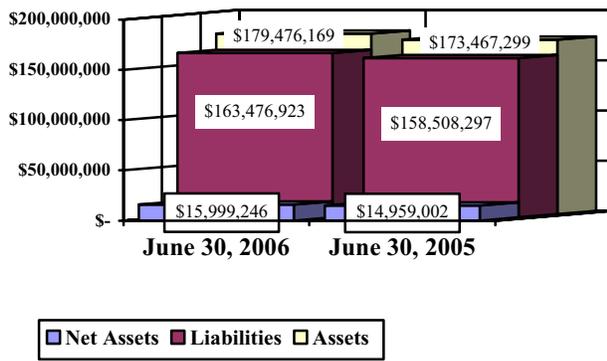
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**The District as a Whole**

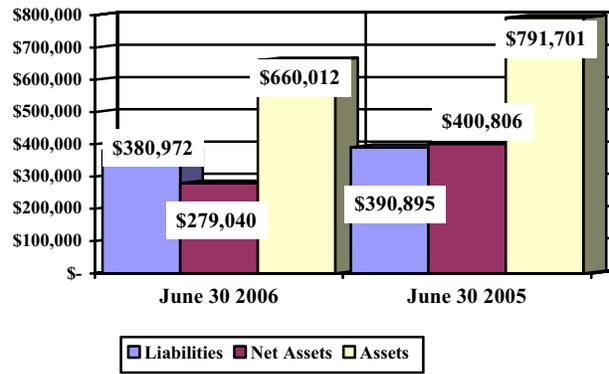
The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005:

	<b>Net Assets</b>					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 136,308,635	\$ 151,875,988	\$ 545,801	\$ 648,839	\$ 136,854,436	\$ 152,524,827
Capital assets	43,167,534	21,591,311	114,211	142,862	43,281,745	21,734,173
<b>Total assets</b>	<b>179,476,169</b>	<b>173,467,299</b>	<b>660,012</b>	<b>791,701</b>	<b>180,136,181</b>	<b>174,259,000</b>
<b>Liabilities</b>						
Current liabilities	55,471,873	48,865,872	267,424	285,757	55,739,297	49,151,629
Long-term liabilities	108,005,050	109,642,425	113,548	105,138	108,118,598	109,747,563
<b>Total liabilities</b>	<b>163,476,923</b>	<b>158,508,297</b>	<b>380,972</b>	<b>390,895</b>	<b>163,857,895</b>	<b>158,899,192</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	10,160,208	4,068,298	114,211	142,862	10,274,419	4,211,160
Restricted	5,964,408	7,295,323	-	-	5,964,408	7,295,323
Unrestricted (deficit)	(125,370)	3,595,381	164,829	257,944	39,459	3,853,325
<b>Total net assets</b>	<b>\$ 15,999,246</b>	<b>\$ 14,959,002</b>	<b>\$ 279,040</b>	<b>\$ 400,806</b>	<b>\$ 16,278,286</b>	<b>\$ 15,359,808</b>

**Governmental – Net Assets**



**Business-Type – Net Assets**



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 4,744,128	\$ 4,200,419	\$1,215,633	\$1,309,152	\$ 5,959,761	\$ 5,509,571
Operating grants and contributions	5,883,573	5,883,383	827,008	773,399	6,710,581	6,656,782
Capital grants and contributions	-	55,335	-	-	-	55,335
General revenues:						
Property taxes	42,134,361	40,256,469	-	-	42,134,361	40,256,469
Grants and entitlements	25,309,281	26,040,207	-	-	25,309,281	26,040,207
Investment earnings	4,346,640	2,312,076	14,673	9,974	4,361,313	2,322,050
Miscellaneous	128,452	120,359	-	-	128,452	120,359
<b>Total revenues</b>	<b>82,546,435</b>	<b>78,868,248</b>	<b>2,057,314</b>	<b>2,092,525</b>	<b>84,603,749</b>	<b>80,960,773</b>
<b>Expenses</b>						
Program expenses:						
Instruction:						
Regular	28,327,278	25,414,587	-	-	28,327,278	25,414,587
Special	11,398,645	11,209,225	-	-	11,398,645	11,209,225
Vocational	3,929,407	3,975,606	-	-	3,929,407	3,975,606
Adult/continuing	217,405	240,755	-	-	217,405	240,755
Other	2,653,069	1,603,891	-	-	2,653,069	1,603,891
Support services:						
Pupil	4,631,658	4,726,908	-	-	4,631,658	4,726,908
Instructional staff	4,783,669	4,381,412	-	-	4,783,669	4,381,412
Board of education	90,432	100,612	-	-	90,432	100,612
Administration	3,488,781	3,649,948	-	-	3,488,781	3,649,948
Fiscal	1,691,623	1,628,715	-	-	1,691,623	1,628,715
Business	1,406,164	979,906	-	-	1,406,164	979,906
Operations and maintenance	8,615,167	7,455,365	-	-	8,615,167	7,455,365
Pupil transportation	117,953	134,393	-	-	117,953	134,393
Central	474,484	431,914	-	-	474,484	431,914
Operation of non-instructional services	1,584,870	1,298,634	-	-	1,584,870	1,298,634
Extracurricular activities	1,050,269	1,036,066	-	-	1,050,269	1,036,066
Intergovernmental	1,044,855	1,204,160	-	-	1,044,855	1,204,160
Interest and fiscal charges	4,450,675	4,084,417	-	-	4,450,675	4,084,417
Food service	-	-	1,889,181	1,885,303	1,889,181	1,885,303
Recreation	-	-	289,899	277,848	289,899	277,848
<b>Total expenses</b>	<b>79,956,404</b>	<b>73,556,514</b>	<b>2,179,080</b>	<b>2,163,151</b>	<b>82,135,484</b>	<b>75,719,665</b>
Special items	(1,549,787)	-	-	-	(1,549,787)	-
<b>Changes in net assets</b>	<b>\$ 1,040,244</b>	<b>\$ 5,311,734</b>	<b>\$ (121,766)</b>	<b>\$ (70,626)</b>	<b>\$ 918,478</b>	<b>\$ 5,241,108</b>

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

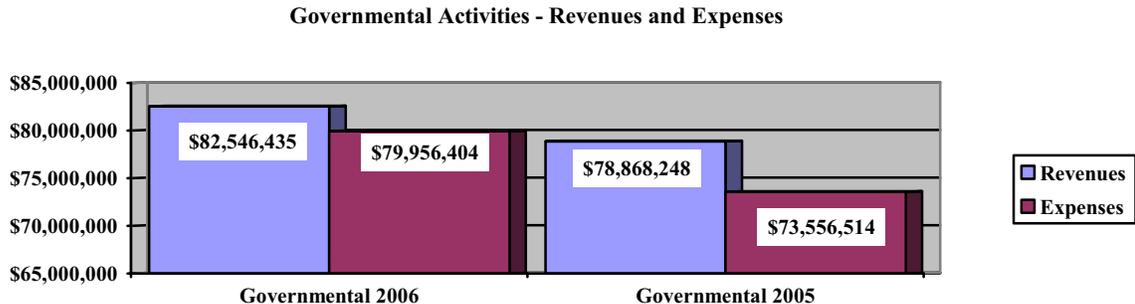
**Governmental Activities**

Net assets of the District's governmental activities increased by \$1,040,244. Total governmental expenses of \$79,956,404 and a special item of \$1,549,787 were offset by program revenues of \$10,627,701 and general revenues of \$71,918,734. Program revenues supported 13.29% 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 81.70% of total governmental revenue. Tax revenue increased approximately \$1.9 million due to increased tax collections in the Debt Service resulting from a full year of collection on the 6.5 mill bond issue that was approved by the voters in March 2004. Collections on this levy began in January 2005 and only a half-year of collection occurred for fiscal year 2005. Interest revenue increased approximately \$2.0 million due to higher interest rates on applicable investments. The primary increase in expenses was in the areas of regular instruction, other instruction and operations and maintenance. The increase in regular instruction expense was primarily due to an increase of approximately \$2.5 million in expenses as a result the District's fiscal year 2006 Timely Retirement Incentive Program (TRIP). The increase in other instruction is primarily due to the reporting of approximately \$500,000 in certain Building Block Grant funding expenditures in this line item in fiscal year 2006. In previous years, these amounts were included as part of regular and special education instruction expenditures. In addition, the District incurred an approximate increase of \$460,000 in community school transfer expenditures primarily related to the addition of the Lakewood City Academy community school which began operations in fiscal year 2006. The increase in support services-instructional staff resulted from normal and customary increase in salaries, insurance and pension obligation on employees. In addition, additional staffing in the area of aides and attendants were required to meet the needs of special education students in the District. In addition, instructional staff expenditures increased due to the equipping of four modular facilities and four rental facilities with technology equipment. The increase in support services – business expenditures resulted from increased legal fees over the prior year in the amount of approximately \$255,000. The increased legal fees are due to teacher termination case and negotiations in fiscal year 2006. In addition, support services – business expenditures increased as a result of advertising costs for various construction projects undertaken by the District coupled with increased telephone costs as the District continued to install and repair telephones in various facilities. The increase in operations and maintenance expense is primarily due to various maintenance projects undertaken by the District and the recording of non-capital construction costs associated with the District's various construction projects. In addition, operations and maintenance expense increased approximately \$300,000 due to the District's fiscal year 2006 TRIP.

The special item is described in Note 2.T to the financial statements.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2006 and 2005. It identifies the cost of these services supported by tax revenue and unrestricted grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses:				
Instruction:				
Regular	28,327,278	24,302,169	25,414,587	21,703,776
Special	11,398,645	9,376,776	11,209,225	9,129,193
Vocational	3,929,407	3,659,328	3,975,606	3,710,701
Adult/continuing	217,405	154,222	240,755	171,042
Other	2,653,069	2,562,325	1,603,891	1,603,891
Support services:				
Pupil	4,631,658	4,140,848	4,726,908	4,317,756
Instructional staff	4,783,669	3,732,319	4,381,412	3,377,374
Board of Education	90,432	90,432	100,612	100,612
Administration	3,488,781	3,094,694	3,649,948	3,285,286
Fiscal	1,691,623	1,674,909	1,628,715	1,611,912
Business	1,406,164	1,406,164	979,906	943,470
Operations and maintenance	8,615,167	8,350,454	7,455,365	7,244,150
Pupil transportation	117,953	112,897	134,393	130,944
Central	474,484	411,059	431,914	368,843
Operation of non-instructional services	1,584,870	1,265,644	1,298,634	1,072,247
Extracurricular activities	1,050,269	550,595	1,036,066	508,524
Intergovernmental	1,044,855	(6,807)	1,204,160	53,239
Interest and fiscal charges	4,450,675	4,450,675	4,084,417	4,084,417
<b>Total expenses</b>	<b><u>\$ 79,956,404</u></b>	<b><u>\$ 69,328,703</u></b>	<b><u>\$ 73,556,514</u></b>	<b><u>\$ 63,417,377</u></b>

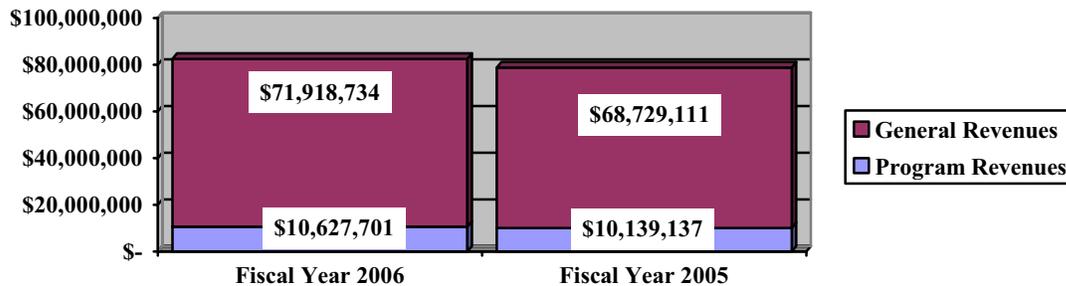
The dependence upon tax revenue during fiscal year 2006 for governmental activities is apparent, as 86.09% of 2006 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 86.71% in 2006. The District's taxpayers, as a whole, is by far the primary support for District's students.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**Business-Type Activities**

Business-type activities include recreation and the food service operation. These programs had revenues of \$2,057,314 and expenses of \$2,179,080 for fiscal year 2006. The food service operations had expenses of \$1,889,181 and revenues of \$1,762,795. This resulted in a decrease to net assets for the fiscal year of \$126,386. The recreation programs had expenses of \$289,899 and revenues of \$294,519. This resulted in an increase to net assets for the fiscal year of \$4,620. 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 \$75,914,818, which is below last year's total of \$97,936,446. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Restated Fund Balance June 30, 2005	Increase (Decrease)
General	\$ 17,784,894	\$ 19,693,441	\$ (1,908,547)
Debt Service	5,356,598	4,405,038	951,560
Building	51,279,618	71,683,396	(20,403,778)
Other Governmental	1,493,708	2,154,571	(660,863)
<b>Total</b>	<b>\$ 75,914,818</b>	<b>\$ 97,936,446</b>	<b>\$ (22,021,628)</b>

**General Fund**

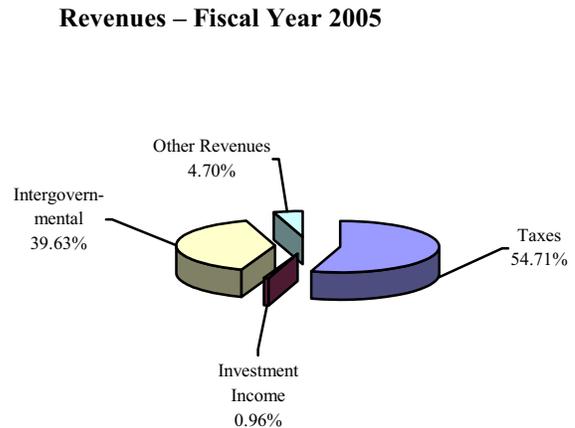
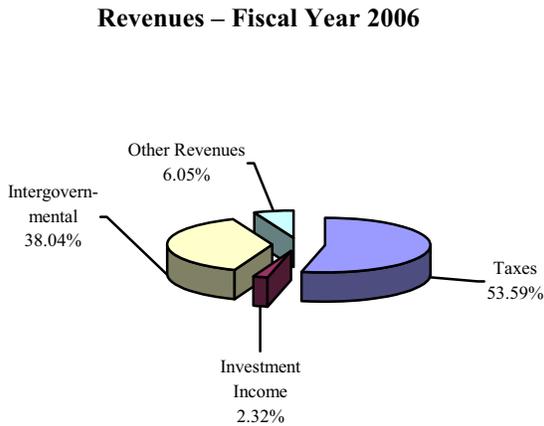
The District's general fund balance decreased by \$1,908,547. Total revenues increased 0.19% while total expenditures increased by 5.28%. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 34,325,120	\$ 34,980,927	(1.87) %
Interest earnings	1,489,387	617,051	141.37 %
Intergovernmental	24,369,727	25,337,803	(3.82) %
Other revenues	<u>3,877,784</u>	<u>3,007,907</u>	28.92 %
Total	<u>\$ 64,062,018</u>	<u>\$ 63,943,688</u>	0.19 %

Tax revenue decreased \$655,807 or 1.87% from the prior year. This decrease resulted from 2005 being an unusual year for tax collections as the Cuyahoga County Auditor collected a substantial amount of taxes prior to the fiscal year end that were available to the District as an advance. Variances can occur in the amount collected (and available for advance) by the Cuyahoga County Auditor by fiscal year end depending upon when the tax bills are sent. The increase in investment income is due to increased interest rates by the Federal Reserve Bank throughout the year. Intergovernmental revenue remained comparable to 2005.



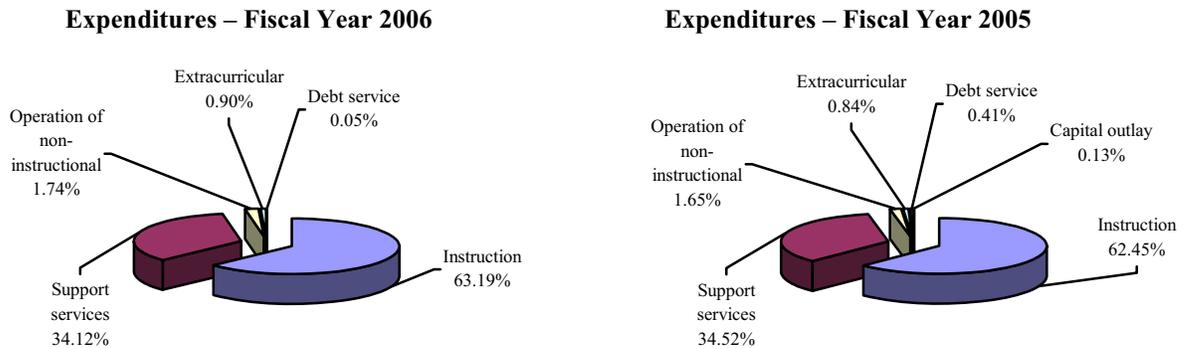
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2006 Amount</u>	<u>Restated 2005 Amount</u>	<u>Percentage Change</u>
<b><u>Expenditures</u></b>			
Instruction	\$ 40,669,936	\$ 37,976,874	7.09 %
Support services	21,963,683	21,281,741	3.20 %
Operation of non-instructional services	1,120,114	1,021,677	9.63 %
Extracurricular activities	576,304	522,285	10.34 %
Capital outlay	-	80,148	(100.00) %
Debt service	<u>32,450</u>	<u>251,154</u>	(87.08) %
Total	<u>\$ 64,362,487</u>	<u>\$ 61,133,879</u>	5.28 %

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Instruction and support service expenditures increased due to normal and customary increases in costs associated with wages, benefits, insurance, and retirement contributions. Instruction expenditures also increased approximately \$460,000 resulting from additional community school transfer expenditures primarily related to the addition of the Lakewood City Academy community school which began operations in fiscal year 2006. Support service expenditures also increased due to increased telephone, technology, advertising and legal costs in fiscal year 2006 (as described on page 8). The most significant decrease was in the area of capital outlay. This decrease is due to the District entering into a capital lease during the 2005 fiscal year for the acquisition of a school bus. Debt service expenditures decreased due to reduced principal and interest requirements on capital lease agreements paid out of the general fund. All other expenditures remained comparable to 2005.



***Debt Service Fund***

The debt service fund had \$23,841,618 in revenues and other financing sources and \$22,890,058 in expenditures. The debt service fund's fund balance increased \$951,560 from \$4,405,038 to \$5,356,598. The debt service fund had an increase of approximately \$2.7 million in tax revenue due to a full year's collection of the District's 6.5 mill bond levy which was approved in March 2004. The District only collected about half of the annual amount in fiscal year 2005 since collections did not begin until January 1, 2005.

***Building Fund***

The building fund had \$2,402,747 in revenues and \$22,806,525 in expenditures. The building fund's fund balance decreased \$20,403,778 from \$71,683,396 to \$51,279,618. Fund balance decreased due to continued construction of various school improvement projects in fiscal 2006.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

***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 2006, 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 \$65,289,246, which was decreased from the original budgeted revenues and other financing sources estimate of \$67,688,093. Actual revenues and other financing sources for fiscal 2006 was \$67,009,843. This represents a \$1,720,597 increase over final budgeted revenues.

General fund original appropriations (expenditures, special item and other financing uses) of \$71,563,114 were decreased to \$69,870,204 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$67,878,164, which was \$1,992,040 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$43,281,745 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$43,167,534 was reported in governmental activities and \$114,211 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

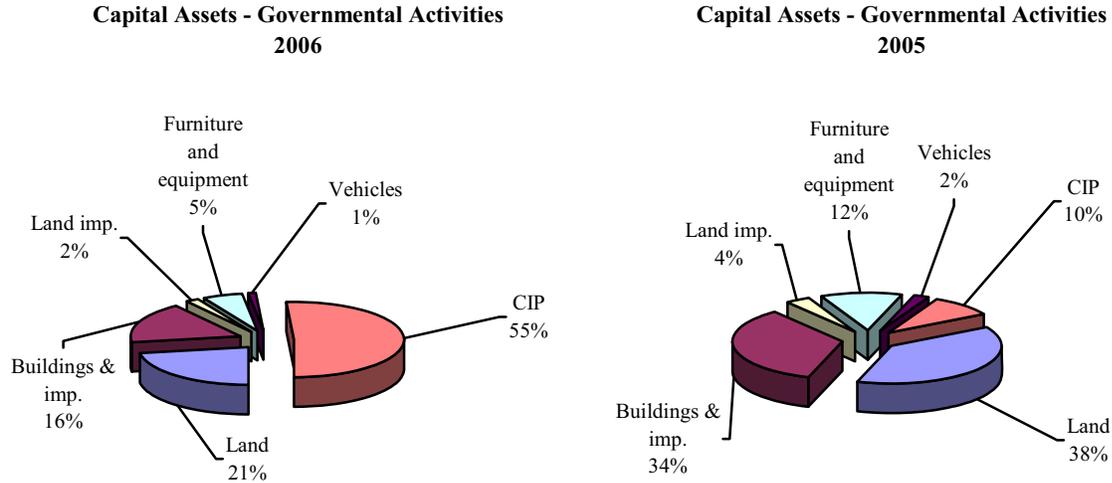
**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 8,949,408	\$ 8,278,282	\$ -	\$ -	\$ 8,949,408	\$ 8,278,282
Land improvements	752,992	816,831	-	-	752,992	816,831
Building and improvements	6,935,072	7,412,238	-	-	6,935,072	7,412,238
Furniture and equipment	2,345,445	2,589,203	114,211	142,862	2,459,656	2,732,065
Vehicles	391,132	426,731	-	-	391,132	426,731
Construction in progress	23,793,485	2,068,026	-	-	23,793,485	2,068,026
<b>Total</b>	<b><u>\$43,167,534</u></b>	<b><u>\$21,591,311</u></b>	<b><u>\$ 114,211</u></b>	<b><u>\$ 142,862</u></b>	<b><u>\$43,281,745</u></b>	<b><u>\$21,734,173</u></b>

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The following graphs show the breakdown of governmental activities capital assets by category for 2006 and 2005.



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

***Debt Administration***

At June 30, 2006 the District had \$97,408,419 in general obligation bonds, notes payable and capital leases outstanding. Of this total, \$18,900,463 is due within one year and \$78,507,956 is due within greater than one year. The following table summarizes the bonds, notes and capital leases outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental Activities 2006	Governmental Activities 2005
General obligation bonds	\$ 82,284,622	\$ 85,834,809
Notes payable	15,000,000	15,000,000
Capital leases	123,797	147,887
<b>Total</b>	<b>\$ 97,408,419</b>	<b>\$100,982,696</b>

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.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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's unrestricted cash balance was \$21,859,407 at June 30, 2006. 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 unrestricted cash balances were \$21,859,407, \$22,002,572, \$18,040,883, \$13,226,206, \$10,049,111, and \$11,539,538 at June 30 in Fiscal Years 2006, 2005, 2004, 2003, 2002, and 2001, 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.

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 2007. In April and May 2005, the Board announced a series of reductions in operating expenses that took effect in Fiscal year 2006. 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. The District passed a 6.5 mill bond issue in March 2004 on which collections began in January 2005.

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 2006 and 2007 did not prove helpful to the funding situation for Lakewood City Schools. The District was projected by the State of Ohio to receive approximately the same amount of state funding in fiscal years 2006 and 2007 as it received in fiscal year 2005. The Board has already gone one additional year past its May 2002 levy promise not to seek additional operating levies from the local voters for three years. The Board is presently exploring the possibility of going a fifth year between operating levies. Budget cuts and operational efficiencies implemented over the past several years allow this discussion to occur. Additionally, the District has been able to streamline some of its operations, thus cutting expenses, due to commencement of its new school facilities program.

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.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2005, to begin the first construction phase of the facilities plan. Community and staff committees have designed 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. This is exemplified by the unqualified audit opinions that have been received by the Auditor of State. 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.

**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.

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Lakewood City Academy
<b>Assets:</b>				
Equity in pooled cash and investments . . . . .	\$ 86,716,398	\$ 418,376	\$ 87,134,774	\$ 111,329
Receivables:				
Taxes . . . . .	46,130,330	-	46,130,330	-
Accounts . . . . .	64,337	-	64,337	-
Intergovernmental . . . . .	1,503,498	100,320	1,603,818	21,864
Accrued interest . . . . .	1,085,564	-	1,085,564	-
Prepayments . . . . .	73,754	-	73,754	-
Materials and supplies inventory . . . . .	-	27,105	27,105	-
Unamortized bond issue costs . . . . .	734,754	-	734,754	-
Capital assets:				
Land and construction in progress . . . . .	32,742,893	-	32,742,893	-
Depreciable capital assets, net . . . . .	10,424,641	114,211	10,538,852	14,915
Total capital assets, net . . . . .	43,167,534	114,211	43,281,745	14,915
Total assets . . . . .	179,476,169	660,012	180,136,181	148,108
<b>Liabilities:</b>				
Accounts payable . . . . .	769,915	15,928	785,843	9,228
Contracts payable . . . . .	5,592,478	-	5,592,478	-
Accrued wages and benefits . . . . .	7,250,043	135,969	7,386,012	-
Pension obligation payable . . . . .	1,659,160	113,439	1,772,599	-
Intergovernmental payable . . . . .	334,782	2,088	336,870	-
Deferred revenue . . . . .	39,124,502	-	39,124,502	-
Accrued interest payable . . . . .	740,993	-	740,993	-
Long-term liabilities:				
Due within one year . . . . .	19,925,124	343	19,925,467	-
Due within more than one year . . . . .	88,079,926	113,205	88,193,131	-
Total liabilities . . . . .	163,476,923	380,972	163,857,895	9,228
<b>Net Assets:</b>				
Invested in capital assets, net of related debt . . . . .	10,160,208	114,211	10,274,419	14,915
Restricted for:				
Debt service . . . . .	5,115,116	-	5,115,116	-
Locally funded programs . . . . .	12,963	-	12,963	-
State funded programs . . . . .	261,415	-	261,415	-
Federally funded programs . . . . .	364,191	-	364,191	29,861
Student activities . . . . .	210,723	-	210,723	-
Unrestricted (deficit) . . . . .	(125,370)	164,829	39,459	94,104
Total net assets . . . . .	\$ 15,999,246	\$ 279,040	\$ 16,278,286	\$ 138,880

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT**  
**CUYAHOGA COUNTY, OHIO**  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<b>Governmental activities:</b>			
Instruction:			
Regular . . . . .	\$ 28,327,278	\$ 3,805,996	\$ 219,113
Special . . . . .	11,398,645	2,222	2,019,647
Vocational . . . . .	3,929,407	31,510	238,569
Adult/continuing . . . . .	217,405	-	63,183
Other . . . . .	2,653,069	-	90,744
Support services:			
Pupil . . . . .	4,631,658	4,279	486,531
Instructional staff . . . . .	4,783,669	62,787	988,563
Board of education . . . . .	90,432	-	-
Administration . . . . .	3,488,781	3,023	391,064
Fiscal . . . . .	1,691,623	2,571	14,143
Business . . . . .	1,406,164	-	-
Operations and maintenance . . . . .	8,615,167	264,713	-
Pupil transportation . . . . .	117,953	4,300	756
Central . . . . .	474,484	-	63,425
Operation of non-instructional services . . . . .	1,584,870	135,852	183,374
Extracurricular activities . . . . .	1,050,269	426,875	72,799
Intergovernmental . . . . .	1,044,855	-	1,051,662
Interest and fiscal charges . . . . .	4,450,675	-	-
Total governmental activities . . . . .	<u>79,956,404</u>	<u>4,744,128</u>	<u>5,883,573</u>
<b>Business-Type activities:</b>			
Food service . . . . .	1,889,181	921,114	827,008
Recreation . . . . .	289,899	294,519	-
Total business-type activities . . . . .	<u>2,179,080</u>	<u>1,215,633</u>	<u>827,008</u>
Totals . . . . .	<u>\$ 82,135,484</u>	<u>\$ 5,959,761</u>	<u>\$ 6,710,581</u>
<b>Component Units:</b>			
Lakewood City Academy . . . . .	\$ 696,991	\$ -	\$ 833,219
Totals . . . . .	<u>\$ 696,991</u>	<u>\$ -</u>	<u>\$ 833,219</u>

**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 - distribution of  
consortium net assets . . . . .

Total general revenues,  
and special items. . . . .

Change in net assets . . . . .

**Net assets at beginning of year. . . . .**

**Net assets at end of year. . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Lakewood City Academy</b>
\$ (24,302,169)	\$ -	\$ (24,302,169)	\$ -
(9,376,776)	-	(9,376,776)	-
(3,659,328)	-	(3,659,328)	-
(154,222)	-	(154,222)	-
(2,562,325)	-	(2,562,325)	-
(4,140,848)	-	(4,140,848)	-
(3,732,319)	-	(3,732,319)	-
(90,432)	-	(90,432)	-
(3,094,694)	-	(3,094,694)	-
(1,674,909)	-	(1,674,909)	-
(1,406,164)	-	(1,406,164)	-
(8,350,454)	-	(8,350,454)	-
(112,897)	-	(112,897)	-
(411,059)	-	(411,059)	-
(1,265,644)	-	(1,265,644)	-
(550,595)	-	(550,595)	-
6,807	-	6,807	-
(4,450,675)	-	(4,450,675)	-
(69,328,703)	-	(69,328,703)	-
-	(141,059)	(141,059)	-
-	4,620	4,620	-
-	(136,439)	(136,439)	-
(69,328,703)	(136,439)	(69,465,142)	-
-	-	-	136,228
-	-	-	136,228
33,977,563	-	33,977,563	-
8,156,798	-	8,156,798	-
25,309,281	-	25,309,281	-
4,346,640	14,673	4,361,313	2,652
128,452	-	128,452	-
71,918,734	14,673	71,933,407	2,652
(1,549,787)	-	(1,549,787)	-
70,368,947	14,673	70,383,620	2,652
1,040,244	(121,766)	918,478	138,880
14,959,002	400,806	15,359,808	-
\$ 15,999,246	\$ 279,040	\$ 16,278,286	\$ 138,880

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and investments . . . . .	\$ 21,859,407	\$ 4,523,324	\$ 56,603,077	\$ 2,926,840	\$ 85,912,648
Receivables:					
Taxes . . . . .	38,407,208	7,723,122	-	-	46,130,330
Accounts . . . . .	64,337	-	-	-	64,337
Intergovernmental . . . . .	671,763	-	-	831,735	1,503,498
Accrued interest . . . . .	272,733	-	812,831	-	1,085,564
Interfund loans . . . . .	1,072,500	-	-	-	1,072,500
Prepayments . . . . .	73,754	-	-	-	73,754
<b>Total assets . . . . .</b>	<b><u>\$ 62,421,702</u></b>	<b><u>\$ 12,246,446</u></b>	<b><u>\$ 57,415,908</u></b>	<b><u>\$ 3,758,575</u></b>	<b><u>\$ 135,842,631</u></b>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 576,134	\$ 403	\$ -	\$ 193,378	\$ 769,915
Contracts payable . . . . .	-	-	5,592,478	-	5,592,478
Accrued wages and benefits . . . . .	7,001,947	-	-	248,096	7,250,043
Compensated absences payable . . . . .	3,576	-	-	-	3,576
Pension obligation payable . . . . .	1,591,342	-	-	67,818	1,659,160
Intergovernmental payable . . . . .	97,273	-	-	4,451	101,724
Interfund loan payable . . . . .	-	-	-	1,072,500	1,072,500
Deferred revenue . . . . .	35,366,536	6,889,445	543,812	678,624	43,478,417
<b>Total liabilities . . . . .</b>	<b><u>44,636,808</u></b>	<b><u>6,889,848</u></b>	<b><u>6,136,290</u></b>	<b><u>2,264,867</u></b>	<b><u>59,927,813</u></b>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	330,873	-	33,019,405	174,467	33,524,745
Reserved for property tax unavailable for appropriation . . . . .	3,513,237	829,454	-	-	4,342,691
Reserved for debt service . . . . .	-	4,527,144	-	-	4,527,144
Reserved for prepayments . . . . .	73,754	-	-	-	73,754
Unreserved, undesignated, reported in:					
General fund . . . . .	13,867,030	-	-	-	13,867,030
Special revenue funds . . . . .	-	-	-	583,946	583,946
Capital projects funds . . . . .	-	-	18,260,213	735,295	18,995,508
<b>Total fund balances . . . . .</b>	<b><u>17,784,894</u></b>	<b><u>5,356,598</u></b>	<b><u>51,279,618</u></b>	<b><u>1,493,708</u></b>	<b><u>75,914,818</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 62,421,702</u></b>	<b><u>\$ 12,246,446</u></b>	<b><u>\$ 57,415,908</u></b>	<b><u>\$ 3,758,575</u></b>	<b><u>\$ 135,842,631</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$	75,914,818
<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.			43,167,534
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	2,615,242	
Accrued interest		682,920	
Accounts		377,129	
Intergovernmental revenue		678,624	
Total			4,353,915
Unamortized deferred charges are not recognized in the funds.			175,851
Unamortized premiums on bond issuances are not recognized in the funds.			(1,809,422)
Unamortized bond issuance costs are not recognized in the funds			734,754
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.			570,692
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		82,284,622	
Notes payable		15,000,000	
Compensated absences		5,638,886	
Retirement incentives		3,320,598	
Capital lease obligations		123,797	
Accrued interest payable		740,993	
Total			(107,108,896)
<b>Net assets of governmental activities</b>		\$	15,999,246

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 34,325,120	\$ 7,869,589	\$ -	\$ -	\$ 42,194,709
Tuition. . . . .	2,850,824	-	-	54,198	2,905,022
Earnings on investments. . . . .	1,489,387	-	2,401,322	28,532	3,919,241
Extracurricular. . . . .	60,142	-	-	788,752	848,894
Classroom materials and fees . . . . .	193,100	-	-	55,981	249,081
Other local revenues. . . . .	773,718	-	1,425	227,496	1,002,639
Intergovernmental - intermediate . . . . .	-	-	-	20,842	20,842
Intergovernmental - state . . . . .	24,142,287	939,554	-	2,029,785	27,111,626
Intergovernmental - federal. . . . .	227,440	-	-	3,560,820	3,788,260
Total revenue . . . . .	<u>64,062,018</u>	<u>8,809,143</u>	<u>2,402,747</u>	<u>6,766,406</u>	<u>82,040,314</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	24,947,459	-	-	664,890	25,612,349
Special. . . . .	9,291,390	-	-	2,029,955	11,321,345
Vocational. . . . .	3,724,016	-	-	252,834	3,976,850
Adult/continuing . . . . .	163,029	-	-	55,521	218,550
Other . . . . .	2,544,042	-	-	82,590	2,626,632
Support Services:					
Pupil. . . . .	4,159,418	-	-	524,368	4,683,786
Instructional staff . . . . .	3,599,321	-	-	1,153,885	4,753,206
Board of education . . . . .	84,927	-	-	-	84,927
Administration. . . . .	3,074,847	-	-	369,983	3,444,830
Fiscal . . . . .	1,665,365	403	-	17,801	1,683,569
Business . . . . .	1,379,914	-	9,957	-	1,389,871
Operations and maintenance. . . . .	7,511,254	-	96,300	-	7,607,554
Pupil transportation . . . . .	73,384	-	-	5,485	78,869
Central. . . . .	415,253	-	-	50,965	466,218
Operation of non-instructional services. . . . .	1,120,114	-	-	330,239	1,450,353
Extracurricular activities. . . . .	576,304	-	-	498,471	1,074,775
Intergovernmental pass through. . . . .	-	-	-	1,031,892	1,031,892
Facilities acquisition and construction . . . . .	-	-	22,700,268	416,681	23,116,949
Debt service:					
Principal retirement . . . . .	24,090	18,760,000	-	-	18,784,090
Interest and fiscal charges . . . . .	8,360	4,129,655	-	-	4,138,015
Total expenditures . . . . .	<u>64,362,487</u>	<u>22,890,058</u>	<u>22,806,525</u>	<u>7,485,560</u>	<u>117,544,630</u>
Excess of revenues under expenditures. . . . .	<u>(300,469)</u>	<u>(14,080,915)</u>	<u>(20,403,778)</u>	<u>(719,154)</u>	<u>(35,504,316)</u>

-- Continued

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	\$ -	\$ -	\$ -	\$ 58,291	\$ 58,291
Transfers (out) . . . . .	(58,291)	-	-	-	(58,291)
Premium on notes issued. . . . .	-	32,475	-	-	32,475
Issuance of notes . . . . .	-	15,000,000	-	-	15,000,000
Total other financing sources (uses) . . . . .	<u>(58,291)</u>	<u>15,032,475</u>	<u>-</u>	<u>58,291</u>	<u>15,032,475</u>
<b>Special item:</b>					
Distribution of consortium net assets . . . . .	<u>(1,549,787)</u>	-	-	-	<u>(1,549,787)</u>
Total special items . . . . .	<u>(1,549,787)</u>	-	-	-	<u>(1,549,787)</u>
Net change in fund balances . . . . .	(1,908,547)	951,560	(20,403,778)	(660,863)	(22,021,628)
<b>Fund balances at beginning</b>					
of year (restated) . . . . .	19,693,441	4,405,038	71,683,396	2,154,571	97,936,446
<b>Fund balances at end of year . . . . .</b>	<u>\$ 17,784,894</u>	<u>\$ 5,356,598</u>	<u>\$ 51,279,618</u>	<u>\$ 1,493,708</u>	<u>\$ 75,914,818</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

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, 2006

<b>Net change in fund balances - total governmental funds</b>	\$	(22,021,628)
<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 are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 22,708,081	
Current year depreciation	<u>(1,131,858)</u>	
Total		21,576,223
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported on the statement of activities:		
Increase in accrued interest payable	(170,684)	
Accretion of interest on "capital appreciation" bonds	(209,813)	
Amortization of bond premium	97,438	
Amortization of deferred charges on refundings	(23,710)	
Amortization of bond issue costs	<u>(38,366)</u>	
		(345,135)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(60,348)	
Intergovernmental	159,174	
Accrued interest	427,399	
Tuition	(19,751)	
Other	<u>(353)</u>	
Total		506,121
Repayment of bonds, notes, and capital lease obligations are expenditures in the governmental funds, but the repayments reduce long-term liabilities on the statement of net assets.		
		18,784,090
Proceeds of 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.		
		(15,000,000)
Some expenses reported in the statement of activities, such as compensated absences and retirement incentives payable, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(2,353,745)
The internal service fund used by management to charge the costs of worker's 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.		
		<u>(105,682)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>1,040,244</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 34,906,117	\$ 35,405,618	\$ 36,249,347	\$ 843,729
Tuition. . . . .	2,413,277	2,447,811	2,722,679	274,868
Earnings on investments. . . . .	583,002	564,288	1,339,816	775,528
Extracurricular. . . . .	59,982	60,840	60,142	(698)
Classroom materials and fees . . . . .	200,843	203,717	195,528	(8,189)
Other local revenues. . . . .	3,600,985	312,119	784,297	472,178
Intergovernmental - state . . . . .	24,213,285	24,559,773	24,142,287	(417,486)
Intergovernmental - federal . . . . .	767,054	778,030	227,441	(550,589)
Total revenue . . . . .	<u>66,744,545</u>	<u>64,332,196</u>	<u>65,721,537</u>	<u>1,389,341</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	25,180,003	25,389,889	25,193,479	196,410
Special. . . . .	9,211,312	9,288,091	9,253,930	34,161
Vocational. . . . .	3,927,028	3,946,371	3,892,328	54,043
Adult/continuing. . . . .	203,276	204,970	151,979	52,991
Other . . . . .	2,557,963	2,579,284	2,503,058	76,226
Support Services:				
Pupil. . . . .	4,385,708	4,422,264	4,218,111	204,153
Instructional staff . . . . .	3,756,925	3,788,240	3,595,060	193,180
Board of education . . . . .	107,294	108,188	97,147	11,041
Administration. . . . .	3,158,848	3,185,178	3,173,934	11,244
Fiscal . . . . .	1,696,876	1,711,020	1,664,582	46,438
Business . . . . .	1,445,465	1,457,513	1,361,349	96,164
Operations and maintenance. . . . .	8,543,185	8,614,395	7,827,758	786,637
Pupil transportation . . . . .	138,599	139,754	129,073	10,681
Central. . . . .	438,292	441,945	413,173	28,772
Operation of non-instructional services . . . . .	1,195,943	1,205,912	1,148,090	57,822
Extracurricular activities. . . . .	640,745	646,086	574,535	71,551
Total expenditures . . . . .	<u>66,587,462</u>	<u>67,129,100</u>	<u>65,197,586</u>	<u>1,931,514</u>
Excess of revenues over (under) expenditures. . . . .	<u>157,083</u>	<u>(2,796,904)</u>	<u>523,951</u>	<u>3,320,855</u>

-- Continued

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	345	350	6	(344)
Transfers (out) . . . . .	(59,504)	(60,000)	(58,291)	1,709
Advances in. . . . .	943,203	956,700	1,288,300	331,600
Advances (out) . . . . .	(942,147)	(950,000)	(1,072,500)	(122,500)
Total other financing sources (uses) . . . . .	<u>(58,103)</u>	<u>(52,950)</u>	<u>157,515</u>	<u>210,465</u>
<b>Special item:</b>				
Distribution of consortium net assets . . . . .	(3,974,001)	(1,731,104)	(1,549,787)	181,317
Total special items . . . . .	<u>(3,974,001)</u>	<u>(1,731,104)</u>	<u>(1,549,787)</u>	<u>181,317</u>
Net change in fund balance . . . . .	(3,875,021)	(4,580,958)	(868,321)	3,712,637
<b>Fund balance at beginning of year . . . . .</b>	21,020,426	21,020,426	21,020,426	-
<b>Prior year encumbrances appropriated . . . . .</b>	1,024,120	1,024,120	1,024,120	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 18,169,525</u>	<u>\$ 17,463,588</u>	<u>\$ 21,176,225</u>	<u>\$ 3,712,637</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and investments. . . . .	\$ 418,376	\$ 803,750
Receivables:		
Intergovernmental . . . . .	100,320	-
Materials and supplies inventory . . . . .	27,105	-
	545,801	803,750
Total current assets . . . . .		
Noncurrent assets:		
Depreciable capital assets, net . . . . .	114,211	-
	660,012	803,750
Total assets . . . . .		
<b>Liabilities:</b>		
Accounts payable. . . . .	15,928	-
Accrued wages and benefits . . . . .	135,969	-
Compensated absences. . . . .	343	-
Pension obligation payable. . . . .	113,439	-
Intergovernmental payable . . . . .	2,088	233,058
	267,767	233,058
Total current liabilities . . . . .		
Long-term liabilities:		
Compensated absences payable. . . . .	113,205	-
	380,972	233,058
Total liabilities . . . . .		
<b>Net assets:</b>		
Invested in capital assets, net of related debt .	114,211	-
Unrestricted. . . . .	164,829	570,692
	\$ 279,040	\$ 570,692
Total net assets . . . . .		

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
	<u>                    </u>	<u>                    </u>
<b>Operating revenues:</b>		
Sales/charges for services. . . . .	\$ 1,215,633	\$ 172,069
Total operating revenues . . . . .	<u>1,215,633</u>	<u>172,069</u>
<b>Operating expenses:</b>		
Personal services. . . . .	1,170,780	-
Purchased services. . . . .	29,379	277,751
Materials and supplies . . . . .	921,166	-
Depreciation . . . . .	28,651	-
Other. . . . .	29,104	-
Total operating expenses. . . . .	<u>2,179,080</u>	<u>277,751</u>
Operating loss . . . . .	<u>(963,447)</u>	<u>(105,682)</u>
<b>Nonoperating revenues:</b>		
Federal donated commodities . . . . .	105,102	-
Interest revenue . . . . .	14,673	-
Grants and subsidies. . . . .	721,906	-
Total nonoperating revenues. . . . .	<u>841,681</u>	<u>-</u>
Change in net assets . . . . .	(121,766)	(105,682)
<b>Net assets at beginning of year . . . . .</b>	<u>400,806</u>	<u>676,374</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 279,040</u>	<u>\$ 570,692</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities:</b>		
Cash received from sales/charges for services. . . . .	\$ 1,215,636	\$ 172,069
Cash payments for personal services. . . . .	(1,179,936)	-
Cash payments for contractual services . . . . .	(26,756)	(203,260)
Cash payments for materials and supplies . . . . .	(823,094)	-
Cash payments for other expenses . . . . .	(30,861)	-
	<u>                    </u>	<u>                    </u>
Net cash used in operating activities . . . . .	(845,011)	(31,191)
<b>Cash flows from noncapital financing activities:</b>		
Cash received from grants and subsidies. . . . .	709,686	-
Cash used in repayment of interfund loans . . . . .	(1,200)	-
	<u>                    </u>	<u>                    </u>
Net cash provided by noncapital financing activities. . . . .	708,486	-
<b>Cash flows from investing activities:</b>		
Interest received . . . . .	14,673	-
	<u>                    </u>	<u>                    </u>
Net cash provided by investing activities . . . . .	14,673	-
Net decrease in cash and cash equivalents . . . . .	(121,852)	(31,191)
<b>Cash and cash equivalents at beginning of year . . .</b>	540,228	834,941
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 418,376</u>	<u>\$ 803,750</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss . . . . .	\$ (963,447)	\$ (105,682)
Adjustments:		
Depreciation. . . . .	28,651	-
Federal donated commodities . . . . .	105,102	-
Changes in assets and liabilities:		
Increase in materials and supplies inventory. . . . .	(5,429)	-
Decrease in accounts receivable . . . . .	35	-
Decrease in accounts payable. . . . .	(976)	-
Decrease in accrued wages and benefits . . . . .	(4,918)	-
Increase in intergovernmental payable . . . . .	186	74,491
Increase in compensated absences payable . . . . .	8,410	-
Decrease in pension obligation payable . . . . .	(12,625)	-
	<u>                    </u>	<u>                    </u>
Net cash used in operating activities . . . . .	<u>\$ (845,011)</u>	<u>\$ (31,191)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and investments . . . . .	\$ 25,542	\$ 126,368
Total assets . . . . .	25,542	\$ 126,368
<b>Liabilities:</b>		
Accounts payable . . . . .	-	\$ 661
Intergovernmental payable . . . . .	-	38,842
Due to students . . . . .	-	86,865
Total liabilities . . . . .	-	\$ 126,368
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	25,542	
Total net assets . . . . .	\$ 25,542	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Private-Purpose Trust</b>	<b>Investment Trust</b>
	<b>Scholarship</b>	<b>Trust</b>
<b>Additions:</b>		
Interest . . . . .	\$ 1,013	\$ 60,291
Gifts and contributions. . . . .	1,000	-
Share transactions:		
Purchase of units . . . . .	-	8,136,604
Redemption of units . . . . .	-	(8,863,034)
Distribution of consortium net assets . . . . .	-	(5,802,691)
	2,013	(6,468,830)
<b>Deductions:</b>		
Scholarships awarded . . . . .	1,000	-
Distributions paid to participants . . . . .	-	64,982
	1,000	64,982
Total deductions . . . . .	1,000	64,982
Change in net assets . . . . .	1,013	(6,533,812)
<b>Net assets at beginning of year . . . . .</b>	<b>24,529</b>	<b>6,533,812</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 25,542</b>	<b>\$ -</b>

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, 2006

**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 48<sup>th</sup> 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 372 non-certified and 522 certified full-time and part-time employees to provide services to approximately 6,301 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) 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 these criteria, the District has one component unit. The financial statements of the reporting entity include only those of the District (the primary government). The following component unit and other organizations are described due to their relationship to the District.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*COMPONENT UNIT*

*The Lakewood City Academy*

The Lakewood City Academy (the "Academy") is a legally separate, conversion community school, served by a Board of Directors. The Academy provides students within the District with curriculum and instruction via distance learning technology. The Board of Directors consists of the Executive Director of TRECA, the Superintendent of Lakewood City School District, the Assistant Superintendent of Lakewood City School District, the Coordinator of Student Services for the Lakewood City School District, the Director of Human Services for the City of Lakewood, the Vice-President of Retail/Chief Savings Officer of the First Federal of Lakewood Savings Bank and the Clinical Supervisor of the City of Lakewood Division of Youth Services. The Lakewood City School District is the sponsoring School District of the Academy under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Academy, the Academy's purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Directors of the Academy, the Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 1470 Warren Road, Lakewood, OH 44107-3918.

*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 2006, \$31,807 was paid to LNOCA by the District. 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 2006, the District paid \$1,466,295 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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*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.

The Fiscal Agent shall be the Board of Education responsible for administering the financial transactions of the Consortium. The Lakewood City School District was the fiscal agent for the Consortium for the period July 1, 2005 through October 31, 2005 and the North Royalton City School District was Fiscal Agent for the Consortium for the period November 1, 2005 through June 30, 2006. 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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 North Royalton City School District (the Fiscal Agent) 6579 Royalton Rd., North Royalton, Ohio 44133.

The District served as fiscal agent and custodian of the Consortium for the period July 1, 2005 through October 31, 2005, 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.

*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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 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. The District's internal service fund accounts for workers' compensation activities.

*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 was the 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.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 2006 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.

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 and final Amended Certificates issued for fiscal year 2006.

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.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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 2006. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final appropriations for fiscal year 2006.
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 2006, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and certificates of deposit. Investments in STAR Ohio are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2006. 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, 2006.

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 2006 amounted to \$1,489,387 which includes \$299,391 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 sponsored an external investment pool during fiscal year 2006. This account represents monies invested by the District on behalf of the Suburban Health Consortium as its' fiscal agent (See Note 19). 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 District's investment account at year-end is provided in Note 4.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$500. 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.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**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.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, 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 employee's 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.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**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. 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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**Q. 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.

**R. 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.

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.

**S. 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.

**T. 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 year 2006, the District ceased its obligation as fiscal agent for the Suburban Health Consortium (SHC) (See Note 19). The District had a distribution of SHC net assets which is reported as a special item. The internal portion of the investment pool was reported in the District's general fund and the final distribution of net assets, in the amount of \$1,549,787, was reported as the special item. See Note 19 for further information on the District's external investment pool.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries. The implementation of GASB Statement No. 42 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of GASB Statement No. 47 had an effect on the fund balance as previously reported at June 30, 2005. Under GASB Statement No. 47, the District's timely retirement incentive program is required to be reported as a fund liability only to the extent the liability is expected to be liquidated using current financial resources. In the prior year, the entire liability was reported as a fund liability. The implementation of GASB Statement No. 47 had the following effect on fund balances as previously reported:

	<u>General</u>
Fund Balance, June 30, 2005	\$ 18,966,767
Implementation of GASB Statement No. 47	<u>726,674</u>
Restated fund balance, June 30, 2005	<u>\$ 19,693,441</u>

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**B. Deficit Fund Balances/Net Assets**

Fund balances/net assets at June 30, 2006 included the following individual fund deficits:

Nonmajor Funds

Special Trusts	\$	99,744
IDEA Part B		134,762
Vocational Education		11,032
Title I		50,502
Drug Free Schools		3,424
Reducing Class Size		49,897
Recreation		38,761

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(B). The funds were corrected by year-end.

The District will conduct a closer monitoring of budgetary activity to ensure expenditures and encumbrances do not exceed appropriations in accordance with Ohio Revised Code 5705.41(B).

**NOTE 4 - DEPOSITS 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.

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

**LAKWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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.

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.

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.

**A. Cash on Hand**

At fiscal year-end, the District had \$2,135 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".

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$86,288,031. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$86,659,153 of the District’s bank balance of \$87,059,153 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**C. Investments**

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>				<u>Total</u>
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	
STAR Ohio	996,518	996,518	-	-	-	996,518
	<u>\$ 996,518</u>	<u>\$ 996,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 996,518</u>

The weighted average maturity of investments is one day.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District’s investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	996,518	100%
	<u>\$ 996,518</u>	<u>100%</u>

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 86,288,031
Investments	996,518
Cash on hand	<u>2,135</u>
Total	<u>\$ 87,286,684</u>
 <u>Cash and investments per Financial Statements</u>	
Governmental activities	\$ 86,716,398
Business-type activities	418,376
Private-purpose trust funds	25,542
Agency Funds	<u>126,368</u>
Total	<u>\$ 87,286,684</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 1,072,500</u>

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.

- B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	<u>\$ 58,291</u>

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.

**LAKWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Tangible personal property taxes received in calendar year 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for property including inventory for 2006 is 18.75%. This will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$3,513,237 in the general fund and \$829,454 in the debt service fund. These amounts have been recorded as revenue. The amounts that were available as an advance at June 30, 2005 was \$5,346,463 in the general fund and \$490,235 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 862,157,090	95.55	\$ 862,769,680	95.89
Public Utility Personal	16,512,290	1.83	15,069,300	1.68
Tangible Personal Property	<u>23,673,865</u>	<u>2.62</u>	<u>21,872,491</u>	<u>2.43</u>
<b>Total</b>	<u><b>\$ 902,343,245</b></u>	<u><b>100.00</b></u>	<u><b>\$ 899,711,471</b></u>	<u><b>100.00</b></u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 97.93		\$ 97.93	
Debt Service	8.47		9.47	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 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:

<b>Governmental Activities</b>	
Taxes - current and delinquent	\$ 46,130,330
Accounts	64,337
Intergovernmental	1,503,498
Accrued interest	1,085,564
<b>Business-Type Activities</b>	
Intergovernmental	<u>100,320</u>
<b>Total receivables</b>	<u><b>\$ 48,884,049</b></u>

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within the subsequent year.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 8 - CAPITAL ASSETS**

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

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 8,278,282	\$ 671,126	\$ -	\$ 8,949,408
Construction in progress	<u>2,068,026</u>	<u>21,725,459</u>	<u>-</u>	<u>23,793,485</u>
Total capital assets, not being depreciated	<u>10,346,308</u>	<u>22,396,585</u>	<u>-</u>	<u>32,742,893</u>
Capital assets, being depreciated:				
Land improvements	3,116,305	-	-	3,116,305
Building/improvements	26,174,405	-	-	26,174,405
Furniture/equipment	12,025,259	243,134	(4,385)	12,264,008
Vehicles	<u>1,169,863</u>	<u>68,362</u>	<u>-</u>	<u>1,238,225</u>
Total capital assets, being depreciated	<u>42,485,832</u>	<u>311,496</u>	<u>(4,385)</u>	<u>42,792,943</u>
Less: accumulated depreciation				
Land improvements	(2,299,474)	(63,839)	-	(2,363,313)
Building/improvements	(18,762,167)	(477,166)	-	(19,239,333)
Furniture/equipment	(9,436,056)	(486,892)	4,385	(9,918,563)
Vehicles	<u>(743,132)</u>	<u>(103,961)</u>	<u>-</u>	<u>(847,093)</u>
Total accumulated depreciation	<u>(31,240,829)</u>	<u>(1,131,858)</u>	<u>4,385</u>	<u>(32,368,302)</u>
Governmental activities capital assets, net	<u>\$ 21,591,311</u>	<u>\$21,576,223</u>	<u>\$ -</u>	<u>\$ 43,167,534</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Furniture/equipment	\$ 818,931	\$ -	\$ -	\$ 818,931
Less: accumulated depreciation	<u>(676,069)</u>	<u>(28,651)</u>	<u>-</u>	<u>(704,720)</u>
Business-type activities capital assets, net	<u>\$ 142,862</u>	<u>\$ (28,651)</u>	<u>\$ -</u>	<u>\$ 114,211</u>

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 699,580
Special	37,930
Vocational	65,376
Support Services:	
Pupil	4,878
Instructional staff	68,018
Board of education	5,456
Administration	19,874
Fiscal	4,737
Business	13,699
Operations and maintenance of plant	42,198
Pupil transportation	39,028
Central	1,372
Extracurricular	1,266
Operation of non-instructional services	<u>128,446</u>
Total depreciation expense	<u>\$ 1,131,858</u>

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In a prior fiscal year, the District entered into capital lease agreements for the acquisition of school buses. 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 school buses have been capitalized in the amount of \$230,363. 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 2006 fiscal year totaled \$24,090 and \$8,360, respectively. These amounts are reported as debt service payments of the general fund.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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, 2006:

Year Ending June 30	Amount
2007	\$ 32,451
2008	32,451
2009	32,451
2010	23,247
2011	11,949
2012	11,949
Total minimum lease payment	144,498
Less: amount representing interest	(20,701)
Present value of minimum lease payments	\$ 123,797

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. General obligation bonds 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.
- 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, 2006 was \$364,993. Total accreted interest of \$169,297 has been included on the statement of net assets.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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, 2006 was \$304,996. Total accreted interest of \$305,726 has been included on the statement of net assets.

**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 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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

E. The following is a summary of the bond and loan activity for fiscal 2006:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06	Amounts due in One Year
<u>General Obligation Bonds:</u>					
Series 1986, improvement 7.875%, 12/01/06 maturity	\$ 1,260,000	\$ -	\$ (630,000)	\$ 630,000	\$ 630,000
Series 2003, library improvement 1.20 - 4.50%, 12/01/23 maturity	12,300,000	-	(290,000)	12,010,000	350,000
Series 2004, school improvement current interest bonds 2.75-5.25%, 12/01/31 maturity	63,740,000	-	(2,095,000)	61,645,000	2,125,000
Series 2004, school improvement capital appreciation bonds 5.55%, 12/01/13 maturity	1,259,987	-	-	1,259,987	-
Series 2004, school improvement capital appreciation bonds accrued interest	65,077	74,546	-	139,623	-
Series 2002, refunding current interest bonds 2.79%, 12/01/11 maturity	3,475,000	-	(450,000)	3,025,000	465,000
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	113,752	55,545	-	169,297	-
Series 2001, refunding current interest bonds 4.14%, 12/01/15 maturity	2,725,000	-	(295,000)	2,430,000	305,000
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	226,004	79,722	-	305,726	-
Total, general obligation bonds	<u>\$ 85,834,809</u>	<u>\$ 209,813</u>	<u>\$ (3,760,000)</u>	<u>\$ 82,284,622</u>	<u>\$ 3,875,000</u>

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

F. Principal and interest requirements to retire general obligation bonds and refunding bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2007	\$ 3,105,000	\$ 3,470,182	\$ 6,575,182
2008	2,890,000	3,394,263	6,284,263
2009	1,695,000	3,325,405	5,020,405
2010	1,780,000	3,268,401	5,048,401
2011	2,080,000	3,190,033	5,270,033
2012 - 2016	10,495,000	14,735,922	25,230,922
2017 - 2021	15,495,000	11,546,396	27,041,396
2022 - 2026	17,825,000	7,099,206	24,924,206
2027 - 2031	16,895,000	2,725,090	19,620,090
2032	2,025,000	51,891	2,076,891
<b>Total</b>	<b>\$ 74,285,000</b>	<b>\$ 52,806,789</b>	<b>\$ 127,091,789</b>

Fiscal Year Ending June 30	Current Interest Refunding Bonds (Series 2001)			Capital Appreciation Refunding Bonds (Series 2001)		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 305,000	\$ 107,395	\$ 412,395	\$ -	\$ -	\$ -
2008	315,000	95,069	410,069	-	-	-
2009	-	88,690	88,690	116,170	213,830	330,000
2010	-	88,690	88,690	101,006	228,994	330,000
2011	-	88,690	88,690	87,820	242,180	330,000
2012 - 2016	1,810,000	229,075	2,039,075	-	-	-
<b>Total</b>	<b>\$ 2,430,000</b>	<b>\$ 697,609</b>	<b>\$ 3,127,609</b>	<b>\$ 304,996</b>	<b>\$ 685,004</b>	<b>\$ 990,000</b>

Fiscal Year Ending June 30	Current Interest Refunding Bonds (Series 2002)			Capital Appreciation Refunding Bonds (Series 2002)		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 465,000	\$ 93,837	\$ 558,837	\$ -	\$ -	\$ -
2008	475,000	80,901	555,901	-	-	-
2009	495,000	65,731	560,731	-	-	-
2010	510,000	48,762	558,762	-	-	-
2011	530,000	30,232	560,232	-	-	-
2012 - 2014	550,000	10,313	560,313	364,993	785,007	1,150,000
<b>Total</b>	<b>\$ 3,025,000</b>	<b>\$ 329,776</b>	<b>\$ 3,354,776</b>	<b>\$ 364,993</b>	<b>\$ 785,007</b>	<b>\$ 1,150,000</b>

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

Fiscal Year Ending June 30	Capital Appreciation School Improvement Bonds (Series 2004)		
	Principal	Interest	Total
2007	\$ -	\$ -	\$ -
2008	-	-	-
2009	-	-	-
2010	-	-	-
2011	-	-	-
2012 - 2014	<u>1,259,987</u>	<u>850,103</u>	<u>2,110,090</u>
Total	<u>\$ 1,259,987</u>	<u>\$ 850,103</u>	<u>\$ 2,110,090</u>

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

	Balance 06/30/05	Additions	Reductions	Balance 06/30/06	Amount Due in One Year
<b>Governmental Activities:</b>					
Compensated absences payable	\$ 5,879,065	\$ 56,253	\$ (292,856)	\$ 5,642,462	\$ 331,474
Retirement incentives payable	1,073,365	2,739,258	(492,025)	3,320,598	693,187
General obligation bonds payable	85,834,809	209,813	(3,760,000)	82,284,622	3,875,000
Notes payable	15,000,000	15,000,000	(15,000,000)	15,000,000	15,000,000
Capital lease obligation	<u>147,887</u>	<u>-</u>	<u>(24,090)</u>	<u>123,797</u>	<u>25,463</u>
Total governmental activities long-term liabilities	<u>\$ 107,935,126</u>	<u>\$ 18,005,324</u>	<u>\$ (19,568,971)</u>	\$ 106,371,479	<u>\$ 19,925,124</u>
Less: Unamortized deferred charge on refunding				(175,851)	
Add: Unamortized premium on refunding				<u>1,809,422</u>	
Total on statement of net assets				<u>\$ 108,005,050</u>	
<b>Business-Type Activities:</b>					
Compensated absences	<u>\$ 105,138</u>	<u>\$ 8,673</u>	<u>\$ (263)</u>	<u>\$ 113,548</u>	<u>\$ 343</u>
Total business-type activities long-term liabilities	<u>\$ 105,138</u>	<u>\$ 8,673</u>	<u>\$ (263)</u>	<u>\$ 113,548</u>	<u>\$ 343</u>

Compensated absences and the retirement incentives will be paid from the fund from which the employee is paid which, for the District, is primarily the general fund. See Note 11 for a description of the District's notes payable and Note 12 for further detail on the District's retirement incentive programs.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

**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, 2006 was a voted debt margin of \$4,046,008 (including available funds of \$5,356,598) an unvoted debt margin of \$899,711.

**NOTE 11 - NOTES PAYABLE**

The District had the following note activity during fiscal 2006:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/06</u>
School Improvement	9/14/2005	9/14/2006	15,000,000	15,000,000	(15,000,000)	15,000,000
Total			<u>\$15,000,000</u>	<u>\$ 15,000,000</u>	<u>\$ (15,000,000)</u>	<u>\$ 15,000,000</u>

School Improvement Notes

On September 14, 2005, the District issued \$15,000,000 in bond anticipation notes to continue various construction projects. These notes were retired on September 14, 2006, with proceeds of bonds issued on September 13, 2006, and other existing funds. 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 Program (ERIP)**

The District Board of Education has approved an ERIP 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. During fiscal 2006, the District paid out \$346,691 related to the ERIP.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 12 - OTHER EMPLOYEE BENEFITS – (Continued)**

**Timely Retirement Incentive Program (TRIP)**

The District Board of Education has approved a TRIP for certified and classified employees. 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 by the end of fiscal year 2005. Employees who elected to participate in the TRIP will receive a payment for their unused sick leave, to the extent allowed by the current labor agreement along with a payment of 60% of their annual salary. The payment for the TRIP is paid out over a five year period. The total liability for the TRIP at June 30, 2006 was \$3,320,598 of which \$693,187 is due within one year and \$2,627,411 is due in greater than one year. The liability is recorded in the governmental activities statement of net assets as a component of “long-term liabilities”.

**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 2006, the District contracted with Indiana Insurance Company for property, crime, and inland marine insurance coverage, the Travelers Insurance Company for boiler and machinery insurance coverage, the Ohio Schools Risk Sharing Authority for fleet insurance coverage and the Ohio School Plan for general liability insurance coverage. 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)	\$134,733,449
Inland Marine Coverage (\$500 deductible)	99,550
Boiler and Machinery (\$1,500 per location deductible)	61,000,000
Crime Insurance (\$1,000 deductible each coverage)	Various
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	1,000,000
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 three 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.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 13 - RISK MANAGEMENT - (Continued)**

**C. Group Health and Dental Insurance**

For fiscal 2006, 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 for the period July 1, 2005 through October 31, 2005 was the Lakewood City School District. The fiscal agent of the Consortium for the period November 1, 2005 through June 30, 2006 was the North Royalton City School District. The Treasurer of the fiscal agent 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	\$ 644.98	\$ 322.49	\$ 271.57	\$ 135.79
Kaiser (HMO)	644.98	322.49	275.79	137.90
Prescription drug	194.55	97.28	81.91	40.96
Dental	87.03	43.51	31.59	15.80
Vision	9.40	4.70	2.32	1.16
Health/Employees covered by a working spouse:				
Suburban Health Consortium	548.24	274.12	271.57	135.79
Prescription drug	165.37	82.68	81.91	40.96

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

**NOTE 14 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS’ website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**LAKWOOD CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 14 - PENSION PLANS – (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$1,024,860, \$782,683, and \$585,967; 41.57 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$598,852 represents the unpaid pension contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System of Ohio**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**LAKWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - PENSION PLANS – (Continued)**

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$4,408,350, \$3,983,995 and \$3,811,386; 83.62 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$722,269 represents the unpaid pension contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$47,260 made by the District and \$87,317 made by 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, 2006, certain members of the Board of Education have elected Social Security. The District'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 the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$339,104 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282.743 million and STRS had 119,184 eligible benefit recipients.

**LAKWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$480,279 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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	\$ (868,321)
Net adjustment for revenue accruals	(1,659,519)
Net adjustment for expenditure accruals	151,917
Net adjustment for other sources/uses	(215,806)
Adjustment for encumbrances	<u>683,182</u>
GAAP basis	<u>\$ (1,908,547)</u>

**NOTE 17 - 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, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2005	\$ (3,832,922)	\$ -
Current year set-aside requirement	967,342	967,342
Qualifying disbursements	<u>(1,650,229)</u>	<u>(1,822,791)</u>
Total	<u>\$ (4,515,809)</u>	<u>\$ (855,449)</u>
Balance carried forward to FY 2007	<u>\$ (4,515,809)</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.

**LAKWOOD CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 18 - 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.

**NOTE 19 - EXTERNAL INVESTMENT POOL**

The District served as fiscal agent for the Suburban Health Consortium (the "Consortium") which is a legally separate entity for the period July 1, 2005 through October 31, 2005. During this period, the District pooled the moneys of the Consortium with the District's for investment purposes. Investments were 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. During the period, the Consortium was allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. On November 1, 2005, the North Royalton City School District became fiscal agent for the Consortium. As such, the internal and external portions of the investment pool were transferred to the new fiscal agent during fiscal 2006. The distribution of the internal portion of the investment pool is reported as a special item in the general fund and is further described in Note 2.T. to the financial statements.

The Consortium issues stand alone financial statements. These financial statements can be obtained from the Treasurer of the North Royalton City School District (the Fiscal Agent) at 6579 Royalton Rd., North Royalton, Ohio 44133.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 20 - CONTRACTUAL COMMITMENTS**

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

<u>Contractor</u>	<u>Contract Awarded</u>	<u>Amount Paid Through 6/30/06</u>	<u>Contractual Commitment</u>
Valley Electric	1,624,830	(207,488)	1,417,342
Blaze Construction	10,308,000	(1,941,112)	8,366,888
Gardner Trane: Temp controls	683,750	-	683,750
Ed Burdue	437,500	(426,858)	10,642
John F. Gallagher	838,494	(221,274)	617,220
Fire Protection: Harding	236,520	(2,576)	233,944
Panzica	5,323,100	(673,911)	4,649,189
Soehnlén Piping	760,900	(109,055)	651,845
TH Martin	603,700	(49,000)	554,700
Price & James: Harding	1,372,900	(218,927)	1,153,973
RJ Martin: Hayes	859,700	(133,155)	726,545
Steingass: Hayes	463,000	(190,911)	272,089
Gross: Hayes	109,675	(7,452)	102,223
CT Taylor: Harrison	6,356,100	(2,159,026)	4,197,074
Gross: Harrison	119,982	(7,988)	111,994
Price & James: Harrison	674,900	(149,273)	525,627
RJ Martin: Harrison	836,300	(222,294)	614,006
Steingass: Harrison	505,000	(251,732)	253,268
RJ Martin: Garfield	1,468,030	(132,107)	1,335,923
Gross: Garfield: HVAC	1,241,025	(11,051)	1,229,974
Gross: Garfield: Fire Protection	195,000	(7,749)	187,251
CT Taylor: Garfield	<u>12,813,000</u>	<u>(3,022,978)</u>	<u>9,790,022</u>
Total	<u>\$ 47,831,406</u>	<u>\$ (10,145,917)</u>	<u>\$ 37,685,489</u>

**NOTE 21 - SIGNIFICANT SUBSEQUENT EVENTS**

The District issued \$13,499,995 in general obligation bonds on September 13, 2006 to retire a portion of the \$15,000,000 School Improvement notes due September 14, 2006.

The District issued \$47,139,953 of refunding bonds on May 9, 2007, of which \$45,195,000 is comprised of current interest bonds and \$1,944,953 is comprised of capital appreciation bonds.

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**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$0	\$95,436	\$0	\$95,436
Total CFDA			<u>0</u>	<u>95,436</u>	<u>0</u>	<u>95,436</u>
<b>Child Nutrition Cluster:</b>						
School Breakfast Program	044198 05 PU 05	10.553	13,878		13,878	
	044198 05 PU 06		48,462		48,462	
Total CFDA			<u>62,340</u>	<u>0</u>	<u>62,340</u>	<u>0</u>
School Lunch Program	044198 LL P4 05	10.555	166,069		166,069	
	044198 LL P4 06		449,814		449,814	
Total CFDA			<u>615,883</u>	<u>0</u>	<u>615,883</u>	<u>0</u>
<b>Total Child Nutrition Cluster</b>			<u>678,223</u>	<u>0</u>	<u>678,223</u>	<u>0</u>
Child Care Food Program	044198 CCMO 05	10.558	2,440		2,440	
	044198 CCMO 06		5,867		5,867	
Total CFDA			<u>8,307</u>	<u>0</u>	<u>8,307</u>	<u>0</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>686,530</u>	<u>95,436</u>	<u>686,530</u>	<u>95,436</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
<b>Special Education Cluster:</b>						
Special Education Grants to States	044198 6BSD 06	84.027	45,021		40,802	
	044198 6BSF 05		154,718		73,083	
	044198 6BSF 06		1,569,252		1,506,939	
Parent / Mentor Project	044198 6BPM 05		2,500		3,589	
	044198 6BPM 06		20,432		22,374	
Total CFDA			<u>1,791,923</u>	<u>0</u>	<u>1,646,787</u>	<u>0</u>
Special Education - Preschool Grants	044198 PGS1 05	84.173	17,285		1,120	
	044198 PGS1 06		87,142		85,580	
Total CFDA			<u>104,427</u>	<u>0</u>	<u>86,700</u>	<u>0</u>
<b>Total Special Education Cluster</b>			<u>1,896,350</u>	<u>0</u>	<u>1,733,487</u>	<u>0</u>
Adult Education State Grant Program	044198 ABS1 05	84.002	(1,097)		10,534	
	044198 ABS1 06		52,234		70,725	
	044198 ABS2 05		0		3,230	
	044198 ABS2 06		33,660		30,951	
Total CFDA			<u>84,797</u>	<u>0</u>	<u>115,440</u>	
Title I, Part A, ESEA	044198 C1S1 05	84.010	209,833		122,215	
	044198 C1S1 06		905,264		883,868	
Total CFDA			<u>1,115,097</u>	<u>0</u>	<u>1,006,083</u>	<u>0</u>
Vocational Education Basic Grants to States	044198 20C1 05	84.048	28,199		31,425	
	044198 20C1 06		150,029		172,284	
	20A0-2005		10,005		36,340	
Total CFDA			<u>188,233</u>	<u>0</u>	<u>240,049</u>	<u>0</u>
Safe and Drug Free Schools State Grants	044198 DRS1 05	84.186	4,922		5,486	
	044198 DRS1 06		31,147		26,359	
Total CFDA			<u>36,069</u>	<u>0</u>	<u>31,845</u>	<u>0</u>

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION (Continued)</u></b>						
<i>Passed Through Ohio Department of Education (Continued)</i>						
Innovative Educational Program Strategies	044198 C2S1 05	84.298	(781)		9,716	
	044198 C2S1 06		34,755		28,681	
Total CFDA			<u>33,974</u>	<u>0</u>	<u>38,397</u>	<u>0</u>
Technology Literacy Challenge Grant	044198 TJS1 05	84.318	(6,785)		0	
	044198 TJS1 06		13,108		9,406	
Total CFDA			<u>6,323</u>	<u>0</u>	<u>9,406</u>	<u>0</u>
America's Career Resource Network Grant	044198 OE 00 06	84.346	4,351		4,240	
Total CFDA			<u>4,351</u>	<u>0</u>	<u>4,240</u>	<u>0</u>
Title III English Proficiency	044198 T3S1 05	84.365	(519)		2,655	
	044198 T3S1 06		150,503		134,579	
Total CFDA			<u>149,984</u>	<u>0</u>	<u>137,234</u>	<u>0</u>
Improving Teacher Quality	044198 TRS1 05	84.367	65,798		47,548	
	044198 TRS1 06		410,037		389,114	
Total CFDA			<u>475,835</u>	<u>0</u>	<u>436,662</u>	<u>0</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>			<u><u>3,991,013</u></u>	<u><u>0</u></u>	<u><u>3,752,843</u></u>	<u><u>0</u></u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through the Ohio Department of Mental Retardation &amp; Development Disabilities:</i>						
Medical Assistance - Medicaid Title XIX	N/A	93.778	173,775		173,775	
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u><u>173,775</u></u>	<u><u>0</u></u>	<u><u>173,775</u></u>	<u><u>0</u></u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><u><u>\$4,851,318</u></u></u>	<u><u><u>\$95,436</u></u></u>	<u><u><u>\$4,613,148</u></u></u>	<u><u><u>\$95,436</u></u></u>

See Notes to the Schedule of Federal Awards Receipts and Expenditures.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2006**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (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, 2006, 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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# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risks that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 4, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the District's management dated May 4, 2007, we reported other matters related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
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Lakewood City School District  
Cuyahoga County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

Mary Taylor, CPA  
Auditor of State

May 4, 2007



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM 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

To the Board of Education:

#### 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 apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, 2006.

#### Internal Control Over Compliance

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

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Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

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

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

Mary Taylor, CPA  
Auditor of State

May 4, 2007

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Child Nutrition Cluster: School Breakfast Program/10.553 School Lunch Program/10.555  Special Education Cluster: Special Education Grants to States/84.027, Parent / Mentor Project/84.027 Special Education - Preschool Grants/84.173
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2006- 001</b>
-----------------------	------------------

**Expenditures Plus Encumbrances Exceeding Appropriations – Noncompliance Finding**

**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 District may not exceed appropriations at the legal level of control for all funds. The District’s legal level of control is the fund level. The following funds, which were corrected by year-end, had expenditures plus encumbrances exceeding authorized appropriations at the legal level of control during the year:

**April 30, 2006**

Fund	Appropriations	Expenditures Plus Encumbrances	Variance
Poverty Aid (494)	\$0	\$403,088	(\$403,088)
Permanent Improvement (003)	\$17,111	\$89,986	(\$72,875)
Building (004)	\$27,412,075	\$55,460,578	(\$28,048,503)

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.

**Official’s Response:**

The Treasurer will conduct a closer monitoring of budgetary activity to ensure expenditures and encumbrances do not exceed appropriations in accordance with Ohio Revised Code Section 5705.41(B).

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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None.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2005-001	Ohio Rev. Code Section 5705.41 (B) – Expenditures Plus Encumbrances Exceeding Appropriations	No	Reissued as Schedule of Findings item 2006-001.





**Mary Taylor, CPA**  
Auditor of State

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  
JUNE 21, 2007