



Mary Taylor, CPA
Auditor of State

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2007**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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, 2007, 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, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3A to the financial statements, the District restated capital assets at July 1, 2007 to reflect a change in capitalization threshold.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2008, 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.



Mary Taylor, CPA
Auditor of State

May 7, 2008

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Lakewood City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. 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 2007 are as follows:

- In total, net assets increased \$6,960,333 (from the restated balances at June 30, 2006 – see Note 3.A). Net assets of governmental activities increased \$7,140,601, which represents a 52.57% increase from 2006. Net assets of business-type activities decreased \$180,268 or 89.01% from 2006.
- Governmental activities general revenues accounted for \$71,572,289 in revenue or 84.37% of all governmental activities revenues. Governmental activities program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13,256,811 or 15.63% of total governmental activities revenues of \$84,829,100.
- The District had \$77,688,499 in expenses related to governmental activities; only \$13,256,811 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 \$71,572,289 were adequate to provide for these programs.
- The District had \$2,184,745 in expenses related to business-type activities; a total of \$1,989,040 was offset by program specific charges for services, grants and contributions. General revenues include only interest earnings of \$15,437. Total revenues were not adequate to provide for these programs by \$180,268 resulting in a decrease to net assets from \$202,515 to \$22,247.
- The District's major governmental funds are the general fund, debt service fund and building fund. The general fund had \$68,490,437 in revenues and other financing sources and \$67,453,600 in expenditures and other financing uses. The general fund's fund balance increased \$1,036,837 from \$17,784,894 to \$18,821,731.
- Another of the District's major governmental funds is the debt service fund. The debt service fund had \$93,266,505 in revenues and other financing sources and \$73,446,859 in expenditures and other financing uses. The debt service fund's fund balance increased \$19,819,646 from \$5,356,958 to \$25,176,244.
- The District's other major governmental fund is the building fund. The building fund had \$2,316,757 in revenues and \$37,983,971 in expenditures. The building fund's fund balance decreased \$35,667,214 from \$51,279,618 to \$15,612,404.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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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 2007?" 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 will take 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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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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 20-25 of this report.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 26-28 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 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 29-30. 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 31-75 of this report.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The District as a Whole

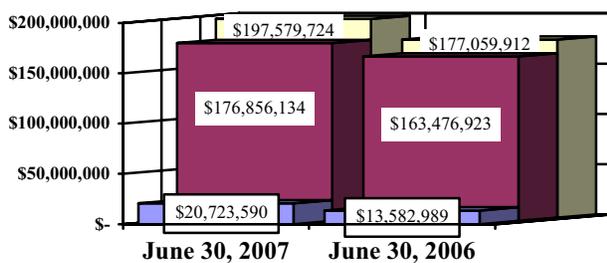
The Statement of Net Assets provides the perspective of the District as a whole. The District restated net assets as detailed in Note 3.A. The table below provides a summary of the District's net assets for 2007 and 2006:

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Assets						
Current assets	\$ 117,669,343	\$136,308,635	\$ 422,586	\$ 545,801	\$ 118,091,929	\$ 136,854,436
Capital assets	79,910,381	40,751,277	33,553	37,686	79,943,934	40,788,963
Total assets	<u>197,579,724</u>	<u>177,059,912</u>	<u>456,139</u>	<u>583,487</u>	<u>198,035,863</u>	<u>177,643,399</u>
Liabilities						
Current liabilities	52,634,789	55,471,873	317,793	267,424	52,952,582	55,739,297
Long-term liabilities	<u>124,221,345</u>	<u>108,005,050</u>	<u>116,099</u>	<u>113,548</u>	<u>124,337,444</u>	<u>108,118,598</u>
Total liabilities	<u>176,856,134</u>	<u>163,476,923</u>	<u>433,892</u>	<u>380,972</u>	<u>177,290,026</u>	<u>163,857,895</u>
Net Assets						
Invested in capital assets, net of related debt	11,963,850	7,743,951	33,553	37,686	11,997,403	7,781,637
Restricted	7,365,272	5,964,408	-	-	7,365,272	5,964,408
Unrestricted (deficit)	<u>1,394,468</u>	<u>(125,370)</u>	<u>(11,306)</u>	<u>164,829</u>	<u>1,383,162</u>	<u>39,459</u>
Total net assets	<u>\$ 20,723,590</u>	<u>\$ 13,582,989</u>	<u>\$ 22,247</u>	<u>\$ 202,515</u>	<u>\$ 20,745,837</u>	<u>\$ 13,785,504</u>

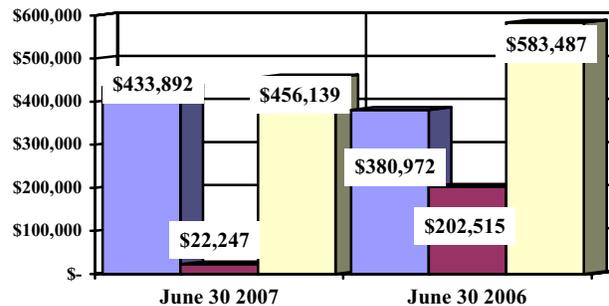
The graphs below show the District's assets, liabilities and net assets at June 30, 2007 and 2006:

Governmental – Net Assets



■ Net Assets ■ Liabilities □ Assets

Business-Type – Net Assets



■ Liabilities ■ Net Assets □ Assets

**LAKWOOD CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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The table below shows the changes in net assets for fiscal years 2007 and 2006. Certain revenue amounts for 2006 have been restated to conform to 2007 presentation.

Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 4,773,785	\$ 4,744,128	\$ 1,163,159	\$ 1,215,633	\$ 5,936,944	\$ 5,959,761
Operating grants and contributions	8,436,040	8,216,161	825,881	827,008	9,261,921	9,043,169
Capital grants and contributions	46,986	-	-	-	46,986	-
General revenues:						
Property taxes	45,098,216	42,134,361	-	-	45,098,216	42,134,361
Grants and entitlements	22,702,458	22,976,693	-	-	22,702,458	22,976,693
Investment earnings	3,678,267	4,346,640	15,437	14,673	3,693,704	4,361,313
Miscellaneous	93,348	128,452	-	-	93,348	128,452
Total revenues	<u>84,829,100</u>	<u>82,546,435</u>	<u>2,004,477</u>	<u>2,057,314</u>	<u>86,833,577</u>	<u>84,603,749</u>
Expenses						
Program expenses:						
Instruction:						
Regular	25,984,936	28,327,278	-	-	25,984,936	28,327,278
Special	11,374,356	11,398,645	-	-	11,374,356	11,398,645
Vocational	3,921,562	3,929,407	-	-	3,921,562	3,929,407
Adult/continuing	306,211	217,405	-	-	306,211	217,405
Other	3,183,667	2,653,069	-	-	3,183,667	2,653,069
Support services:						
Pupil	4,774,842	4,631,658	-	-	4,774,842	4,631,658
Instructional staff	5,116,643	4,783,669	-	-	5,116,643	4,783,669
Board of education	97,335	90,432	-	-	97,335	90,432
Administration	3,420,275	3,488,781	-	-	3,420,275	3,488,781
Fiscal	1,701,584	1,691,623	-	-	1,701,584	1,691,623
Business	1,112,377	1,406,164	-	-	1,112,377	1,406,164
Operations and maintenance	8,102,755	8,615,167	-	-	8,102,755	8,615,167
Pupil transportation	140,304	117,953	-	-	140,304	117,953
Central	404,573	474,484	-	-	404,573	474,484
Operation of non-instructional services	1,553,210	1,584,870	-	-	1,553,210	1,584,870
Extracurricular activities	1,211,876	1,050,269	-	-	1,211,876	1,050,269
Intergovernmental	1,129,724	1,044,855	-	-	1,129,724	1,044,855
Interest and fiscal charges	4,152,269	4,450,675	-	-	4,152,269	4,450,675
Food service	-	-	1,850,413	1,889,181	1,850,413	1,889,181
Recreation	-	-	334,332	289,899	334,332	289,899
Total expenses	<u>77,688,499</u>	<u>79,956,404</u>	<u>2,184,745</u>	<u>2,179,080</u>	<u>79,873,244</u>	<u>82,135,484</u>
Special items	-	(1,549,787)	-	-	-	(1,549,787)
Changes in net assets	<u>7,140,601</u>	<u>1,040,244</u>	<u>(180,268)</u>	<u>(121,766)</u>	<u>6,960,333</u>	<u>918,478</u>
Net assets at						
beginning of year (restated)	<u>13,582,989</u>	<u>12,542,745</u>	<u>202,515</u>	<u>324,281</u>	<u>13,785,504</u>	<u>12,867,026</u>
Net assets at end of year	<u>\$ 20,723,590</u>	<u>\$ 13,582,989</u>	<u>\$ 22,247</u>	<u>\$ 202,515</u>	<u>\$ 20,745,837</u>	<u>\$ 13,785,504</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

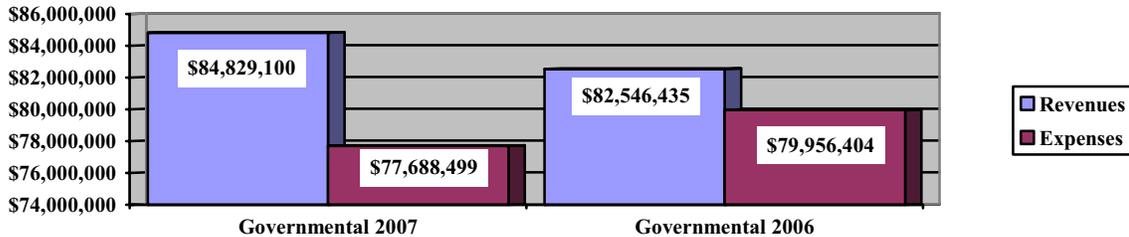
Governmental Activities

Net assets of the District's governmental activities increased \$7,140,601. Total governmental expenses of \$77,688,499 were offset by program revenues of \$13,256,811 and general revenues of \$71,572,289. Program revenues supported 17.06% 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 79.93% of total governmental revenue. Tax revenue increased approximately \$2.9 million due to a fluctuation in the amount of taxes collected by the County available to the District as an advance at fiscal year-end. The amount of taxes collected and available as an advance at fiscal year-end can vary depending upon when tax bills are sent by the County Auditor. Interest revenue decreased approximately \$0.7 million as the District had less construction funds to invest in 2007 versus 2006. The District continued to expend bond and note proceeds on the various construction projects resulting in less cash to invest during fiscal year 2007 versus 2006. All other revenue line items remained consistent with 2006. The primary decrease in expenses was in the areas of regular instruction and support services – business. The decrease in regular instruction expense was primarily due to a decrease of approximately \$2.0 million in expenses as resulting from the District's Timely Retirement Incentive Program (TRIP). In fiscal year 2007, the District incurred approximately \$107,000 in expenses related to the TRIP versus approximately \$2.1 million in fiscal year 2006. The decrease in support services – business expenditures resulted from increased legal fees incurred in fiscal year 2006 of approximately \$255,000 related to legal fees related to a teacher termination case and negotiations in fiscal year 2006. These additional legal fees were not incurred in fiscal year 2007. The primary increase in expenses was in the areas of vocation instruction, other instruction and support services – instructional staff. The increase in vocational instruction resulted from increased participation in the District's vocational programs. The increase in other instruction is primarily due to the reporting of certain Building Block Grant funding expenditures in this line item in fiscal year 2007. During fiscal year 2006, the District began accounting for these funding expenditures in the other instruction line item; however, the District completely accounted for these funding expenditures in these line items in 2007. Partially in 2006 and in previous years, these amounts were included as part of regular and special education instruction expenditures. In addition, the District continued to incur community school transfer expenditures primarily related to 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 continued equipping of four modular facilities and four rental facilities with technology equipment. All other expense line items were consistent with 2006.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 2007 and 2006. It identifies the cost of these services supported by tax revenue and unrestricted grants and entitlements. Certain "cost of services" for 2006 have been restated to conform to 2007 presentation.

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses:				
Instruction:				
Regular	25,984,936	23,179,503	28,327,278	24,302,169
Special	11,374,356	7,675,033	11,398,645	7,564,214
Vocational	3,921,562	2,388,439	3,929,407	3,338,985
Adult/continuing	306,211	(42,816)	217,405	154,222
Other	3,183,667	3,099,352	2,653,069	2,562,325
Support services:				
Pupil	4,774,842	4,208,610	4,631,658	4,140,848
Instructional staff	5,116,643	3,908,955	4,783,669	3,732,319
Board of Education	97,335	97,335	90,432	90,432
Administration	3,420,275	3,002,181	3,488,781	3,094,694
Fiscal	1,701,584	1,684,326	1,691,623	1,674,909
Business	1,112,377	1,112,377	1,406,164	1,406,164
Operations and maintenance	8,102,755	7,832,807	8,615,167	8,350,454
Pupil transportation	140,304	(113,127)	117,953	(86,786)
Central	404,573	339,469	474,484	411,059
Operation of non-instructional services	1,553,210	1,255,482	1,584,870	1,265,644
Extracurricular activities	1,211,876	622,683	1,050,269	550,595
Intergovernmental	1,129,724	28,810	1,044,855	(6,807)
Interest and fiscal charges	4,152,269	4,152,269	4,450,675	4,450,675
 Total expenses	 <u>\$ 77,688,499</u>	 <u>\$ 64,431,688</u>	 <u>\$ 79,956,404</u>	 <u>\$ 66,996,115</u>

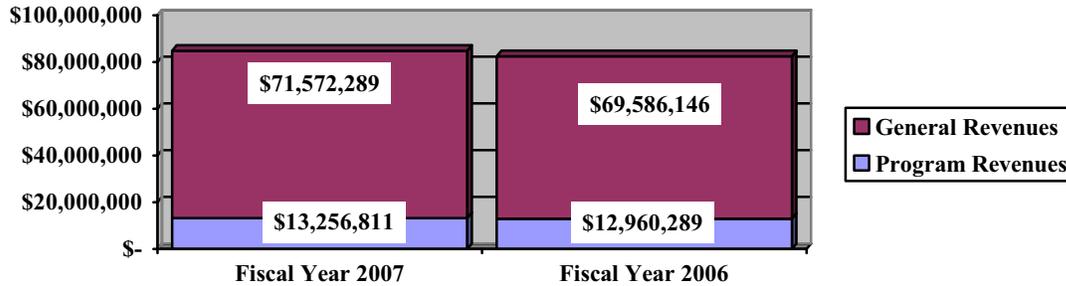
The dependence upon tax revenue during fiscal year 2007 for governmental activities is apparent, as 81.08% of 2007 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 82.94% in 2007. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are 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, 2007
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The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006. Both general and program revenues for 2006 have been restated to conform to 2007 presentation.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include recreation and the food service operation. These programs had revenues of \$2,004,477 and expenses of \$2,184,745 for fiscal year 2007. The food service operations had expenses of \$1,850,413 and revenues of \$1,697,932. This resulted in a decrease to net assets for the fiscal year of \$152,481. The recreation programs had expenses of \$334,332 and revenues of \$306,545. This resulted in a decrease to net assets for the fiscal year of \$27,787. 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 \$61,078,035 which is below last year's total of \$75,914,818. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	Increase <u>(Decrease)</u>
General	\$ 18,821,731	\$ 17,784,894	\$ 1,036,837
Debt Service	25,176,244	5,356,598	19,819,646
Building	15,612,404	51,279,618	(35,667,214)
Other Governmental	<u>1,467,656</u>	<u>1,493,708</u>	<u>(26,052)</u>
Total	<u>\$ 61,078,035</u>	<u>\$ 75,914,818</u>	<u>\$ (14,836,783)</u>

**LAKWOOD CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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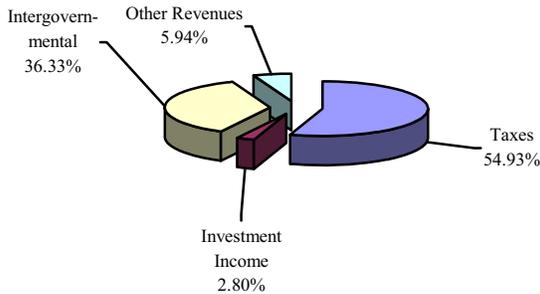
General Fund

The District's general fund balance increased \$1,036,837. Total revenues increased 4.63% while total expenditures increased by 4.75%. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

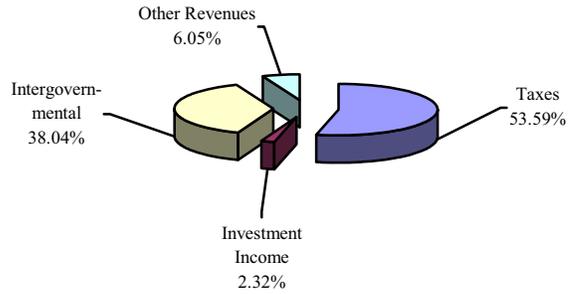
	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 36,827,715	\$ 34,325,120	7.29 %
Interest earnings	1,874,420	1,489,387	25.85 %
Intergovernmental	24,348,673	24,369,727	(0.09) %
Other revenues	<u>3,978,643</u>	<u>3,877,784</u>	2.60 %
Total	<u>\$ 67,029,451</u>	<u>\$ 64,062,018</u>	4.63 %

Tax revenue increased \$2,502,595 or 7.29% from the prior year. This increase is primarily due to fluctuations in the amount of taxes collected by the Cuyahoga County Auditor and available to the District as an advance at fiscal year-end. The amount of taxes collected and available as an advance at fiscal year-end can vary depending upon when tax bills are sent by the County Auditor. At June 30, 2007, 2006 and 2005, the amount collected by the Cuyahoga County Auditor and available as an advance in the general fund was \$4,397,231, \$3,513,237 and \$5,346,463, respectively. The amount available as an advance at any particular year-end is recorded as revenue. The increase in investment income is due to increased interest rates by the Federal Reserve Bank throughout the year. Intergovernmental and other revenue remained comparable to 2006.

Revenues – Fiscal Year 2007



Revenues – Fiscal Year 2006



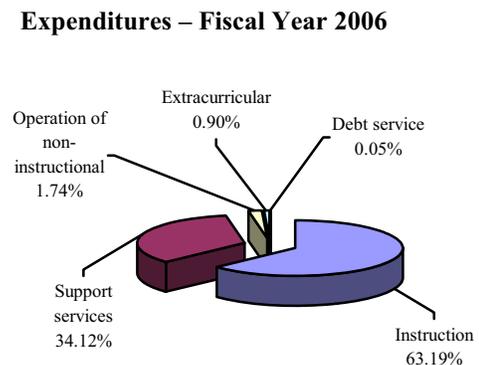
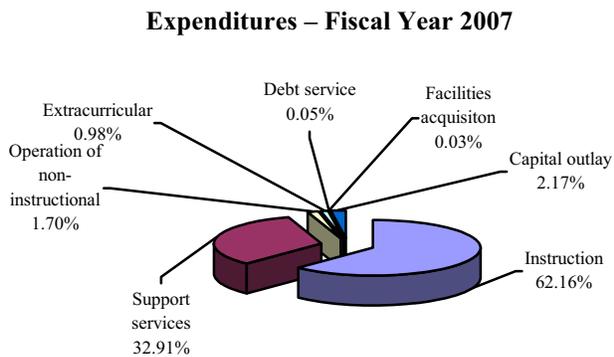
**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

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

<u>Expenditures</u>	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 41,913,672	\$ 40,669,936	3.06 %
Support services	22,188,704	21,963,683	1.02 %
Operation of non-instructional services	1,145,172	1,120,114	2.24 %
Extracurricular activities	658,479	576,304	14.26 %
Facilities acquisition and construction	19,136	-	100.00 %
Capital outlay	1,460,986	-	100.00 %
Debt service	32,451	32,450	0.00 %
Total	\$ 67,418,600	\$ 64,362,487	4.75 %

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 due to additional community school transfer expenditures primarily related to the addition of the Lakewood City Academy community school which began operations in fiscal year 2006. Capital outlay increased due to the District entering into a capital lease. All other expenditures remained comparable to 2006.



Debt Service Fund

The debt service fund had \$93,266,505 in revenues and other financing sources and \$73,446,859 in expenditures and other financing uses. The debt service fund's fund balance increased \$19,819,646 from \$5,356,598 to \$25,176,244. The increase in fund balance of approximately \$20 million resulted from the recording of proceeds of a \$20 million bond anticipation note and proceeds of a \$13,499,995 school improvement bonds in the debt service fund in 2007. These proceeds were partially offset by the retirement of a \$15 million bond anticipation note which was retired in the debt service fund in fiscal year 2007.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

Building Fund

The building fund had \$2,316,757 in revenues and \$37,983,971 in expenditures. The building fund's fund balance decreased \$35,667,214 from \$51,279,618 to \$15,612,404. Fund balance decreased due to continued construction of various school improvement projects in fiscal 2007.

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 2007, 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 \$65,956,660, which was decreased from the original budgeted revenues and other financing sources estimate of \$66,742,364. Actual revenues and other financing sources for fiscal 2007 was \$67,118,439. This represents a \$1,161,779 increase over final budgeted revenues.

General fund original appropriations (expenditures, special item and other financing uses) of \$69,256,254 were decreased to \$68,716,830 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$67,879,269, which was \$837,561 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

The District restated capital assets due to a change in the threshold amount as detailed in Note 3.A. At the end of fiscal 2007, the District had \$79,943,934 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$79,910,381 was reported in governmental activities and \$33,553 was reported in business-type activities. The following table shows fiscal 2007 balances compared to 2006:

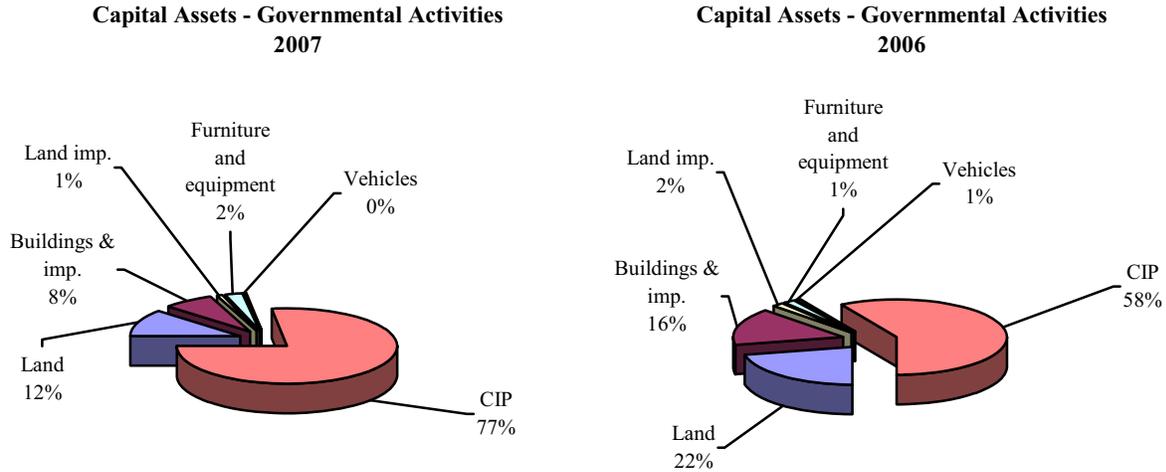
**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
		Restated		Restated		Restated
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 9,229,170	\$ 8,810,925	\$ -	\$ -	\$ 9,229,170	\$ 8,810,925
Land improvements	688,940	742,649	-	-	688,940	742,649
Building and improvements	6,072,123	6,462,219	-	-	6,072,123	6,462,219
Furniture and equipment	1,971,260	592,582	33,553	37,686	2,004,813	630,268
Vehicles	316,049	349,417	-	-	316,049	349,417
Construction in progress	61,632,839	23,793,485	-	-	61,632,839	23,793,485
Total	<u>\$79,910,381</u>	<u>\$40,751,277</u>	<u>\$ 33,553</u>	<u>\$ 37,686</u>	<u>\$79,943,934</u>	<u>\$40,788,963</u>

The following graphs show the breakdown of governmental activities capital assets by category for 2007 and 2006.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED



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

Debt Administration

At June 30, 2007 the District had \$113,740,778 in general obligation bonds, notes payable and capital leases outstanding. Of this total, \$25,808,259 is due within one year and \$87,932,519 is due within greater than one year. The following table summarizes the bonds, notes and capital leases outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
General obligation bonds	\$ 92,181,458	\$ 82,284,622
Notes payable	20,000,000	15,000,000
Capital leases	<u>1,559,320</u>	<u>123,797</u>
Total	<u>\$ 113,740,778</u>	<u>\$ 97,408,419</u>

During fiscal year 2007, the District issued \$13,499,995 in school improvement bonds and \$47,139,953 refunding bonds. In addition, the District refunded \$47,140,000 of the Series 2004 school improvement bonds. 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, 2007
UNAUDITED**

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 \$22,942,386 at June 30, 2007. Fiscal year-end general fund unrestricted cash balances were \$22,942,386, \$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 2007, 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 2008. 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 2007 and 2008 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 2007 and 2008 as it received in fiscal year 2006. The Board is presently exploring the possibility of going a sixth 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, 2007
UNAUDITED**

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. The Lakewood community also passed a \$30.1 million bond issue on May 8, 2007. The 1.9 mill levy will be for a term of 27 years commencing in 2007 with collections beginning in 2008. This bond issue was passed to continue various construction and renovation projects to school facilities. 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, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Lakewood City Academy
Assets:				
Equity in pooled cash and investments	\$ 68,394,797	\$ 294,064	\$ 68,688,861	\$ 227,179
Receivables:				
Taxes	46,263,622	-	46,263,622	-
Accounts	12,037	-	12,037	264
Intergovernmental	1,438,805	100,720	1,539,525	-
Accrued interest	642,361	-	642,361	-
Prepayments	12,335	-	12,335	-
Materials and supplies inventory	-	27,802	27,802	-
Unamortized bond issue costs	905,386	-	905,386	-
Capital assets:				
Land and construction in progress	70,862,009	-	70,862,009	-
Depreciable capital assets, net	9,048,372	33,553	9,081,925	95,284
Total capital assets, net	79,910,381	33,553	79,943,934	95,284
Total assets	197,579,724	456,139	198,035,863	322,727
Liabilities:				
Accounts payable	856,280	20,671	876,951	7,021
Contracts payable	2,561,332	-	2,561,332	-
Accrued wages and benefits	7,445,352	186,136	7,631,488	-
Pension obligation payable	1,737,389	106,965	1,844,354	-
Intergovernmental payable	1,132,173	4,021	1,136,194	-
Unearned revenue	37,639,278	-	37,639,278	-
Accrued interest payable	1,262,985	-	1,262,985	-
Long-term liabilities:				
Due within one year	27,071,160	493	27,071,653	-
Due within more than one year	97,150,185	115,606	97,265,791	-
Total liabilities	176,856,134	433,892	177,290,026	7,021
Net Assets:				
Invested in capital assets, net of related debt	11,963,850	33,553	11,997,403	95,284
Restricted for:				
Debt service	6,017,619	-	6,017,619	-
Capital projects	390,657	-	390,657	-
Locally funded programs	27,703	-	27,703	-
State funded programs	233,736	-	233,736	2,000
Federally funded programs	459,936	-	459,936	632
Student activities	235,621	-	235,621	-
Unrestricted (deficit)	1,394,468	(11,306)	1,383,162	217,790
Total net assets	\$ 20,723,590	\$ 22,247	\$ 20,745,837	\$ 315,706

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, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 25,984,936	\$ 2,521,870	\$ 236,577	\$ 46,986
Special	11,374,356	34,600	3,664,723	-
Vocational	3,921,562	1,018,536	514,587	-
Adult/continuing	306,211	170,805	178,222	-
Other	3,183,667	-	84,315	-
Support services:				
Pupil.	4,774,842	2,433	563,799	-
Instructional staff	5,116,643	46,513	1,161,175	-
Board of education	97,335	-	-	-
Administration.	3,420,275	12,443	405,651	-
Fiscal.	1,701,584	3,270	13,988	-
Business.	1,112,377	-	-	-
Operations and maintenance	8,102,755	269,948	-	-
Pupil transportation.	140,304	2,943	250,488	-
Central	404,573	-	65,104	-
Operation of non-instructional services	1,553,210	101,406	196,322	-
Extracurricular activities.	1,211,876	589,018	175	-
Intergovernmental	1,129,724	-	1,100,914	-
Interest and fiscal charges	4,152,269	-	-	-
Total governmental activities	<u>77,688,499</u>	<u>4,773,785</u>	<u>8,436,040</u>	<u>46,986</u>
Business-Type activities:				
Nonmajor enterprise funds:				
Food service.	1,850,413	856,614	825,881	-
Recreation.	334,332	306,545	-	-
Total business-type activities	<u>2,184,745</u>	<u>1,163,159</u>	<u>825,881</u>	<u>-</u>
Totals	<u>\$ 79,873,244</u>	<u>\$ 5,936,944</u>	<u>\$ 9,261,921</u>	<u>\$ 46,986</u>
Component Units:				
Lakewood City Academy	\$ 1,024,082	\$ -	\$ 1,193,687	\$ -
Totals	<u>\$ 1,024,082</u>	<u>\$ -</u>	<u>\$ 1,193,687</u>	<u>\$ -</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

Change in net assets

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Lakewood City Academy
\$ (23,179,503)	\$ -	\$ (23,179,503)	\$ -
(7,675,033)	-	(7,675,033)	-
(2,388,439)	-	(2,388,439)	-
42,816	-	42,816	-
(3,099,352)	-	(3,099,352)	-
(4,208,610)	-	(4,208,610)	-
(3,908,955)	-	(3,908,955)	-
(97,335)	-	(97,335)	-
(3,002,181)	-	(3,002,181)	-
(1,684,326)	-	(1,684,326)	-
(1,112,377)	-	(1,112,377)	-
(7,832,807)	-	(7,832,807)	-
113,127	-	113,127	-
(339,469)	-	(339,469)	-
(1,255,482)	-	(1,255,482)	-
(622,683)	-	(622,683)	-
(28,810)	-	(28,810)	-
(4,152,269)	-	(4,152,269)	-
(64,431,688)	-	(64,431,688)	-
-	(167,918)	(167,918)	-
-	(27,787)	(27,787)	-
-	(195,705)	(195,705)	-
(64,431,688)	(195,705)	(64,627,393)	-
-	-	-	169,605
-	-	-	169,605
37,260,237	-	37,260,237	-
7,837,979	-	7,837,979	-
22,702,458	-	22,702,458	-
3,678,267	15,437	3,693,704	7,010
93,348	-	93,348	211
71,572,289	15,437	71,587,726	7,221
7,140,601	(180,268)	6,960,333	176,826
13,582,989	202,515	13,785,504	138,880
\$ 20,723,590	\$ 22,247	\$ 20,745,837	\$ 315,706

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 22,942,386	\$ 24,130,804	\$ 17,920,829	\$ 2,631,704	\$ 67,625,723
Receivables:					
Taxes	38,038,075	8,225,547	-	-	46,263,622
Accounts	5,136	-	-	6,901	12,037
Intergovernmental	461,027	-	-	977,778	1,438,805
Accrued interest	389,454	-	252,907	-	642,361
Interfund loans	1,180,000	-	-	-	1,180,000
Prepayments	12,335	-	-	-	12,335
Total assets	<u>\$ 63,028,413</u>	<u>\$ 32,356,351</u>	<u>\$ 18,173,736</u>	<u>\$ 3,616,383</u>	<u>\$ 117,174,883</u>
Liabilities:					
Accounts payable	\$ 753,396	\$ -	\$ -	\$ 102,884	\$ 856,280
Contracts payable	-	-	2,561,332	-	2,561,332
Accrued wages and benefits	7,173,218	-	-	272,134	7,445,352
Compensated absences payable	178,405	-	-	-	178,405
Pension obligation payable	1,658,642	-	-	78,747	1,737,389
Intergovernmental payable	519,511	-	-	15,351	534,862
Interfund loan payable	-	-	-	1,180,000	1,180,000
Deferred revenue	2,859,984	604,355	-	499,611	3,963,950
Unearned revenue	31,063,526	6,575,752	-	-	37,639,278
Total liabilities	<u>44,206,682</u>	<u>7,180,107</u>	<u>2,561,332</u>	<u>2,148,727</u>	<u>56,096,848</u>
Fund Balances:					
Reserved for encumbrances	1,448,495	-	9,269,220	532,314	11,250,029
Reserved for property tax unavailable for appropriation	4,397,231	1,042,867	-	-	5,440,098
Reserved for debt service	-	24,133,377	-	-	24,133,377
Reserved for prepayments	12,335	-	-	-	12,335
Unreserved, undesignated, reported in:					
General fund	12,963,670	-	-	-	12,963,670
Special revenue funds	-	-	-	874,415	874,415
Capital projects funds	-	-	6,343,184	60,927	6,404,111
Total fund balances	<u>18,821,731</u>	<u>25,176,244</u>	<u>15,612,404</u>	<u>1,467,656</u>	<u>61,078,035</u>
Total liabilities and fund balances	<u>\$ 63,028,413</u>	<u>\$ 32,356,351</u>	<u>\$ 18,173,736</u>	<u>\$ 3,616,383</u>	<u>\$ 117,174,883</u>

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, 2007

Total governmental fund balances		\$ 61,078,035
<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.		79,910,381
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 3,152,608	
Accrued interest	170,010	
Accounts	141,721	
Intergovernmental revenue	499,611	
Total		3,963,950
Unamortized deferred charges are not recognized in the funds.		2,943,448
Unamortized premiums on bond issuances are not recognized in the funds.		(4,713,520)
Unamortized bond issuance costs are not recognized in the funds		905,386
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.		171,763
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	(92,181,458)	
Notes payable	(20,000,000)	
Compensated absences	(5,849,863)	
Retirement incentives	(2,682,227)	
Capital lease obligations	(1,559,320)	
Accrued interest payable	(1,262,985)	
Total		(123,535,853)
Net assets of governmental activities		\$ 20,723,590

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, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 36,827,715	\$ 7,733,135	\$ -	\$ -	\$ 44,560,850
Tuition.	2,754,226	-	-	48,692	2,802,918
Earnings on investments.	1,874,420	-	2,316,757	38,472	4,229,649
Extracurricular.	58,500	-	-	919,358	977,858
Classroom materials and fees	184,851	-	-	70,066	254,917
Other local revenues.	981,066	-	-	145,430	1,126,496
Intergovernmental - intermediate	-	-	-	18,957	18,957
Intergovernmental - state	24,128,515	847,095	-	2,063,085	27,038,695
Intergovernmental - federal.	220,158	-	-	3,988,567	4,208,725
Total revenue	<u>67,029,451</u>	<u>8,580,230</u>	<u>2,316,757</u>	<u>7,292,627</u>	<u>85,219,065</u>
Expenditures:					
Current:					
Instruction:					
Regular	25,426,043	-	-	597,381	26,023,424
Special.	9,577,524	-	-	1,695,532	11,273,056
Vocational.	3,699,055	-	-	178,989	3,878,044
Adult/continuing	119,614	-	-	183,511	303,125
Other	3,091,436	-	-	82,590	3,174,026
Support Services:					
Pupil.	4,187,406	-	-	538,536	4,725,942
Instructional staff	3,847,621	-	-	1,184,848	5,032,469
Board of education	94,222	-	-	-	94,222
Administration.	2,982,328	-	-	417,064	3,399,392
Fiscal	1,665,227	-	-	17,804	1,683,031
Business	1,045,339	-	53,303	-	1,098,642
Operations and maintenance.	7,924,076	-	91,314	-	8,015,390
Pupil transportation	102,737	-	-	3,221	105,958
Central.	339,748	-	-	75,981	415,729
Operation of non-instructional services.	1,145,172	-	-	285,998	1,431,170
Extracurricular activities.	658,479	-	-	540,419	1,198,898
Intergovernmental pass through.	-	-	-	1,133,595	1,133,595
Facilities acquisition and construction	19,136	-	37,839,354	418,210	38,276,700
Capital outlay.	1,460,986	-	-	-	1,460,986
Debt service:					
Principal retirement	25,463	18,875,000	-	-	18,900,463
Interest and fiscal charges	6,988	3,403,306	-	-	3,410,294
Bond issuance costs	-	561,407	-	-	561,407
Total expenditures	<u>67,418,600</u>	<u>22,839,713</u>	<u>37,983,971</u>	<u>7,353,679</u>	<u>135,595,963</u>
Excess of revenues over (under) expenditures.	<u>(389,149)</u>	<u>(14,259,483)</u>	<u>(35,667,214)</u>	<u>(61,052)</u>	<u>(50,376,898)</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, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):					
Transfers in	\$ -	\$ -	\$ -	\$ 35,000	\$ 35,000
Transfers (out)	(35,000)	-	-	-	(35,000)
Capital lease transaction	1,460,986	-	-	-	1,460,986
Premium on notes issued	-	11,950	-	-	11,950
Issuance of notes	-	20,000,000	-	-	20,000,000
Premium on bonds sold	-	4,034,377	-	-	4,034,377
Payment to refunding bond escrow agent	-	(50,607,146)	-	-	(50,607,146)
Proceeds from sale of bonds	-	60,639,948	-	-	60,639,948
Total other financing sources (uses)	<u>1,425,986</u>	<u>34,079,129</u>	<u>-</u>	<u>35,000</u>	<u>35,540,115</u>
Net change in fund balances	1,036,837	19,819,646	(35,667,214)	(26,052)	(14,836,783)
Fund balances at beginning					
of year	17,784,894	5,356,598	51,279,618	1,493,708	75,914,818
Fund balances at end of year	<u>\$ 18,821,731</u>	<u>\$ 25,176,244</u>	<u>\$ 15,612,404</u>	<u>\$ 1,467,656</u>	<u>\$ 61,078,035</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, 2007

Net change in fund balances - total governmental funds		\$	(14,836,783)
<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	\$	39,813,926	
Current year depreciation		(654,822)	
Total		39,159,104	39,159,104
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		(521,992)	
Accretion of interest on "capital appreciation" bonds		(271,888)	
Amortization of bond premium		129,234	
Amortization of deferred charges on refundings		(42,763)	
Amortization of bond issue costs		(46,516)	
Total		(753,925)	(753,925)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Taxes		537,366	
Intergovernmental		(179,013)	
Accrued interest		(512,910)	
Tuition		(235,255)	
Other		(153)	
Total		(389,965)	(389,965)
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.			
			18,900,463
Proceeds of notes, bonds and capital lease transactions are recorded as other financing sources 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.			
			(82,100,934)
Payments to refunding bond escrow agents for the retirement of bonds are an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net assets. The following refunding transactions occurred in the fiscal year:			
			50,607,146
Premiums on bonds sold are recognized as an other financing source in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.			
			(4,034,377)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.			
			561,407
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.			
			427,394
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.			
			(398,929)
Change in net assets of governmental activities		\$	7,140,601

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 36,040,473	\$ 35,608,054	\$ 35,958,328	\$ 350,274
Tuition.	2,619,716	2,588,284	2,727,274	138,990
Earnings on investments.	1,248,062	1,233,088	1,788,601	555,513
Extracurricular.	60,771	60,042	58,500	(1,542)
Classroom materials and fees	197,633	195,262	183,983	(11,279)
Other local revenues.	716,765	723,246	980,580	257,334
Intergovernmental - state	24,324,791	24,032,938	24,128,515	95,577
Intergovernmental - federal	230,202	227,440	220,158	(7,282)
Total revenue	<u>65,438,413</u>	<u>64,668,354</u>	<u>66,045,939</u>	<u>1,377,585</u>
Expenditures:				
Current:				
Instruction:				
Regular	26,431,878	26,226,076	26,016,386	209,690
Special.	9,575,325	9,500,770	9,391,928	108,842
Vocational.	3,808,186	3,778,084	3,734,766	43,318
Adult/continuing.	179,166	177,771	135,211	42,560
Other	2,963,917	2,940,839	2,903,058	37,781
Support Services:				
Pupil.	4,218,383	4,185,538	4,175,766	9,772
Instructional staff	3,934,296	3,903,663	3,888,870	14,793
Board of education	109,682	108,828	33,932	74,896
Administration.	3,049,515	3,025,771	2,968,338	57,433
Fiscal	1,798,975	1,784,968	1,678,260	106,708
Business	1,225,720	1,216,176	1,141,445	74,731
Operations and maintenance.	8,187,924	8,124,171	7,986,375	137,796
Pupil transportation	148,591	147,434	128,060	19,374
Central.	377,394	374,456	342,127	32,329
Operation of non-instructional services	1,252,215	1,242,465	1,196,227	46,238
Extracurricular activities.	733,834	728,120	676,820	51,300
Facilities acquisition and construction.	268,793	266,700	266,700	-
Total expenditures	<u>68,263,794</u>	<u>67,731,830</u>	<u>66,664,269</u>	<u>1,067,561</u>
Excess of revenues over (under) expenditures.	<u>(2,825,381)</u>	<u>(3,063,476)</u>	<u>(618,330)</u>	<u>2,445,146</u>
Other financing sources (uses):				
Refund of prior year expenditure	6	6	-	(6)
Transfers (out)	(35,275)	(35,000)	(35,000)	-
Advances in.	1,303,945	1,288,300	1,072,500	(215,800)
Advances (out)	(957,455)	(950,000)	(1,180,000)	(230,000)
Total other financing sources (uses)	<u>311,221</u>	<u>303,306</u>	<u>(142,500)</u>	<u>(445,806)</u>
Net change in fund balance	(2,514,160)	(2,760,170)	(760,830)	1,999,340
Fund balance at beginning of year	21,176,225	21,176,225	21,176,225	-
Prior year encumbrances appropriated	683,182	683,182	683,182	-
Fund balance at end of year	<u>\$ 19,345,247</u>	<u>\$ 19,099,237</u>	<u>\$ 21,098,577</u>	<u>\$ 1,999,340</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 294,064	\$ 769,074
Receivables:		
Intergovernmental	100,720	-
Materials and supplies inventory	27,802	-
	422,586	769,074
Total current assets		
	422,586	769,074
Noncurrent assets:		
Depreciable capital assets, net	33,553	-
	33,553	-
Total assets		
	456,139	769,074
Liabilities:		
Accounts payable.	20,671	-
Accrued wages and benefits	186,136	-
Compensated absences.	493	-
Pension obligation payable.	106,965	-
Intergovernmental payable	4,021	597,311
	318,286	597,311
Total current liabilities		
	318,286	597,311
Long-term liabilities:		
Compensated absences payable.	115,606	-
	115,606	-
Total liabilities		
	433,892	597,311
Net assets:		
Invested in capital assets, net of related debt	33,553	-
Unrestricted.	(11,306)	171,763
	22,247	171,763
Total net assets		
	\$ 22,247	\$ 171,763

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, 2007

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Operating revenues:		
Sales/charges for services.	\$ 1,163,159	\$ 282,735
Total operating revenues	<u>1,163,159</u>	<u>282,735</u>
Operating expenses:		
Personal services.	1,260,621	-
Purchased services.	30,055	681,664
Materials and supplies	861,319	-
Depreciation	4,133	-
Other.	28,617	-
Total operating expenses.	<u>2,184,745</u>	<u>681,664</u>
Operating loss	<u>(1,021,586)</u>	<u>(398,929)</u>
Nonoperating revenues:		
Federal donated commodities	94,180	-
Interest revenue	15,437	-
Grants and subsidies.	731,701	-
Total nonoperating revenues.	<u>841,318</u>	<u>-</u>
Change in net assets	(180,268)	(398,929)
Net assets at beginning of year (restated) .	<u>202,515</u>	<u>570,692</u>
Net assets at end of year	<u>\$ 22,247</u>	<u>\$ 171,763</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, 2007

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from sales/charges for services.	\$ 1,163,159	\$ 282,735
Cash payments for personal services.	(1,212,235)	-
Cash payments for contractual services	(29,812)	(317,411)
Cash payments for materials and supplies	(761,474)	-
Cash payments for other expenses	(30,688)	-
	<u>(871,050)</u>	<u>(34,676)</u>
Net cash used in operating activities		
	<u>(871,050)</u>	<u>(34,676)</u>
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	731,301	-
	<u>731,301</u>	<u>-</u>
Net cash provided by noncapital financing activities.		
	<u>731,301</u>	<u>-</u>
Cash flows from investing activities:		
Interest received	15,437	-
	<u>15,437</u>	<u>-</u>
Net cash provided by investing activities		
	<u>15,437</u>	<u>-</u>
Net decrease in cash and cash equivalents	(124,312)	(34,676)
Cash and cash equivalents at beginning of year . . .	<u>418,376</u>	<u>803,750</u>
Cash and cash equivalents at end of year	<u>\$ 294,064</u>	<u>\$ 769,074</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,021,586)	\$ (398,929)
Adjustments:		
Depreciation.	4,133	-
Federal donated commodities	94,180	-
Changes in assets and liabilities:		
(Increase) in materials and supplies inventory.	(697)	-
Increase in accounts payable.	4,743	-
Increase in accrued wages and benefits	50,167	-
Increase in intergovernmental payable	1,933	364,253
Increase in compensated absences payable	2,551	-
(Decrease) in pension obligation payable	(6,474)	-
	<u>(6,474)</u>	<u>-</u>
Net cash used in operating activities	<u>\$ (871,050)</u>	<u>\$ (34,676)</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, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments.	\$ 26,966	\$ 157,058
Total assets	26,966	\$ 157,058
Liabilities:		
Accounts payable.	-	\$ 982
Intergovernmental payable	-	39,894
Due to students	-	116,182
Total liabilities	-	\$ 157,058
Net Assets:		
Held in trust for scholarships	26,966	
Total net assets	\$ 26,966	

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, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,424
Gifts and contributions.	1,000
	2,424
Deductions:	
Scholarships awarded	1,000
	1,000
Total deductions	1,000
Change in net assets	1,424
Net assets at beginning of year	25,542
Net assets at end of year.	\$ 26,966

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 51st largest by enrollment among the 876 public school districts and community schools in the State of Ohio. It currently operates 14 instructional buildings, 1 administrative building and 1 garage. The District employs 335 non-certified and 546 certified full-time and part-time employees to provide services to approximately 6,265 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, 2007

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.

See Note 20 for further information on the Academy.

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 2007, \$152,305 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 (the “Council”) is a jointly governed organization comprised of one hundred and nine member districts. The mission of the Council is to identify, plan and provide services to member districts that can be more effectively achieved by cooperative endeavors of member districts than by an individual district operating on its own. 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 2007, the District paid \$1,357,090 to the Council for membership and other services as well as for the electric and natural gas purchasing programs. Financial information can be obtained by contacting David Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The District participates in the Council's Energy for Education Program. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating in the program for an extended period of time. The current, three year contract expires in December 2008. The participants make monthly payments based upon estimated usage. At the end of each fiscal year, these estimated payments are compared to actual usage for the year and additional billings are made or refunds are issued accordingly.

In April 2005, the Energy Acquisition Corporation II, a non-profit corporation with a self-appointing board, issued \$246 million in bonds and used the proceeds to prepay for the estimated electric energy costs for 249 entities from Cleveland Electric Illuminating, Ohio Edison and Toledo Edison. The participating school districts are not obligated in any manner for this debt.

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 in the program for a twelve year period. The participants make monthly payments based upon estimated usage. Annually, these estimated payments are compared to actual usage and any necessary adjustments are made.

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

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
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 (North Royalton City School District) shall be the Board of Education responsible for administering the financial transactions of the Consortium. 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
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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.

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
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 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. The District's agency funds account for student managed activities and amounts held and due to other governments.

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, 2007

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
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The private-purpose trust fund is 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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2007 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 2007.

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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

6. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2007. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final appropriations for fiscal year 2007.
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 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 2007, 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 2007. 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, 2007.

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 2007 amounted to \$1,874,420 includes \$815,469 assigned from other District funds.

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
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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. During fiscal year 2007, the District increased its capitalization threshold from \$500 to \$5,000 (see Note 3.A and Note 8). 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 loans 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. The District did not have any internal balances at June 30, 2007.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007, 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 and compensated absences 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, 2007

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
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, issuance costs are deferred and amortized over the term of the bonds using the straight line method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount 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. Transfers between governmental funds are eliminated for reporting on the government-wide statement of activities.

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. Interfund services provided and used are not eliminated for reporting on the government-wide statement of activities.

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. Neither type of transaction occurred during fiscal 2007.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Net Assets

The District's net assets have been restated to reflect a change in the District's capitalization threshold from \$500 to \$5,000 and to correct for errors and omissions in the amounts reported as accumulated depreciation in the prior year. This prior period adjustment had the following effect on net assets as previously reported by the governmental activities, business-type activities and the nonmajor enterprise funds:

	Governmental Activities	Business-type Activities	Nonmajor Enterprise Funds
Net assets, June 30, 2006	\$ 15,999,246	\$ 279,040	\$ 279,040
Adjustment for change in capitalization threshold	(2,416,257)	(76,525)	(76,525)
Restated net assets, June 30, 2006	\$ 13,582,989	\$ 202,515	\$ 202,515

See Note 8 for the effect of the prior period adjustment on the capital assets balances as previously reported by the District at June 30, 2006.

B. Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2007 included the following individual fund deficits:

Nonmajor Governmental Funds

Special Trusts	\$ 68,755
Ohio Reads	212
Vocational Education	10,405

Nonmajor Enterprise Fund

Recreation Services	66,548
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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 a fund during the year that had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code 5705.41(B). The fund was 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).

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The District had funds during the year that had negative cash balance and a negative fund balance contrary to Ohio Revised Code 5705.10(H). The funds were corrected by year-end.

The District will conduct a closer monitoring of budgetary activity to ensure that negative cash balances and negative unencumbered fund balances are corrected during the year in accordance with Ohio Revised Code 5705.10(H).

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:

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 items (1) and (2) above 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);

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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".

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$68,210,870. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$69,064,879 of the District's bank balance of \$69,364,879 was exposed to custodial risk as discussed below, while \$300,000 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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				Total
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	
STAR Ohio	\$ 659,880	\$ 659,880	\$ -	\$ -	\$ -	\$ 659,880
	<u>\$ 659,880</u>	<u>\$ 659,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 659,880</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: STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. 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, 2007:

Investment type	Fair Value	% of Total
STAR Ohio	\$ 659,880	100%
	<u>\$ 659,880</u>	<u>100%</u>

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, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 68,210,870
Investments	659,880
Cash on hand	2,135
Total	<u>\$ 68,872,885</u>
<u>Cash and investments per Financial Statements</u>	
Governmental activities	\$ 68,394,797
Business-type activities	294,064
Private-purpose trust funds	26,966
Agency Funds	157,058
Total	<u>\$ 68,872,885</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2007, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 1,180,000</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. The District had no internal balances at June 30, 2007.

- B. Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	<u>\$ 35,000</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.

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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007 and will be reduced to 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance at June 30, 2007 was \$4,397,231 in the general fund and \$1,042,867 in the debt service fund. These amounts have been recorded as revenue. The amounts that were available as an advance at June 30, 2006 was \$3,513,237 in the general fund and \$829,454 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, 2007 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 unearned revenue.

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 862,769,680	95.89	\$ 955,506,470	96.91
Public Utility Personal	15,069,300	1.68	14,577,400	1.48
Tangible Personal Property	<u>21,872,491</u>	<u>2.43</u>	<u>15,903,081</u>	<u>1.61</u>
Total	<u>\$ 899,711,471</u>	<u>100.00</u>	<u>\$ 985,986,951</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 97.93		\$ 97.93	
Debt Service	9.47		8.67	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities	
Taxes - current and delinquent	\$ 46,263,622
Accounts	12,037
Intergovernmental	1,438,805
Accrued interest	642,361
Business-Type Activities	
Intergovernmental	<u>100,720</u>
Total receivables	<u>\$ 48,457,545</u>

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities

Capital assets of the governmental activities have been restated due to a change in the District's capitalization threshold from \$500 to \$5,000 and to correct for errors and omissions in the amounts reported as accumulated depreciation at June 30, 2006. The restatement had the following effect on the governmental activities capital asset balances as previously reported:

	<u>Balance</u> 06/30/06	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> 06/30/06
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 8,949,408	\$ (138,483)	\$ 8,810,925
Construction in progress	<u>23,793,485</u>	<u>-</u>	<u>23,793,485</u>
Total capital assets, not being depreciated	<u>32,742,893</u>	<u>(138,483)</u>	<u>32,604,410</u>
Capital assets, being depreciated:			
Land improvements	3,116,305	2,288	3,118,593
Building/improvements	26,174,405	(124,473)	26,049,932
Furniture/equipment	12,264,008	(8,784,126)	3,479,882
Vehicles	<u>1,238,225</u>	<u>-</u>	<u>1,238,225</u>
Total capital assets, being depreciated	<u>42,792,943</u>	<u>(8,906,311)</u>	<u>33,886,632</u>
Less: accumulated depreciation			
Land improvements	(2,363,313)	(12,631)	(2,375,944)
Building/improvements	(19,239,333)	(348,380)	(19,587,713)
Furniture/equipment	(9,918,563)	7,031,263	(2,887,300)
Vehicles	<u>(847,093)</u>	<u>(41,715)</u>	<u>(888,808)</u>
Total accumulated depreciation	<u>(32,368,302)</u>	<u>6,628,537</u>	<u>(25,739,765)</u>
Governmental activities capital assets, net	<u>\$ 43,167,534</u>	<u>\$ (2,416,257)</u>	<u>\$ 40,751,277</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Capital assets, not being depreciated:				
Land	\$ 8,810,925	\$ 418,245	\$ -	\$ 9,229,170
Construction in progress	<u>23,793,485</u>	<u>37,839,354</u>	-	<u>61,632,839</u>
Total capital assets, not being depreciated	<u>32,604,410</u>	<u>38,257,599</u>	-	<u>70,862,009</u>
Capital assets, being depreciated:				
Land improvements	3,118,593	-	-	3,118,593
Building/improvements	26,049,932	-	-	26,049,932
Furniture/equipment	3,479,882	1,519,879	-	4,999,761
Vehicles	<u>1,238,225</u>	<u>36,448</u>	-	<u>1,274,673</u>
Total capital assets, being depreciated	<u>33,886,632</u>	<u>1,556,327</u>	-	<u>35,442,959</u>
Less: accumulated depreciation				
Land improvements	(2,375,944)	(53,709)	-	(2,429,653)
Building/improvements	(19,587,713)	(390,096)	-	(19,977,809)
Furniture/equipment	(2,887,300)	(141,201)	-	(3,028,501)
Vehicles	<u>(888,808)</u>	<u>(69,816)</u>	-	<u>(958,624)</u>
Total accumulated depreciation	<u>(25,739,765)</u>	<u>(654,822)</u>	-	<u>(26,394,587)</u>
Governmental activities capital assets, net	<u>\$ 40,751,277</u>	<u>\$39,159,104</u>	<u>\$ -</u>	<u>\$ 79,910,381</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 330,365
Special	19,784
Vocational	51,742
Support Services:	
Pupil	2,517
Instructional staff	39,294
Board of education	2,953
Administration	17,488
Fiscal	328
Business	10,151
Operations and maintenance of plant	38,132
Pupil transportation	34,172
Extracurricular	667
Operation of non-instructional services	<u>107,229</u>
Total depreciation expense	<u>\$ 654,822</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Business-Type Activities

Capital assets of the business-type activities have been restated due to a change in the District's capitalization threshold from \$500 to \$5,000 and to correct for errors and omissions in the amounts reported as accumulated depreciation at June 30, 2006. The restatement had the following effect on the business-type activities capital asset balances as previously reported:

	<u>Balance</u>	<u>Adjustment</u>	<u>Restated Balance</u>
	<u>06/30/06</u>	<u>06/30/06</u>	<u>06/30/06</u>
Capital assets, being depreciated:			
Furniture/equipment	\$ 818,931	\$ (623,853)	\$ 195,078
Less: accumulated depreciation	<u>(704,720)</u>	<u>547,328</u>	<u>(157,392)</u>
Business-type activities capital assets, net	<u>\$ 114,211</u>	<u>\$ (76,525)</u>	<u>\$ 37,686</u>

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Restated Balance</u>	<u>Additions</u>	<u>Deductions</u>		<u>Balance</u>
	<u>06/30/06</u>	<u>06/30/06</u>	<u>06/30/06</u>		<u>06/30/07</u>
Capital assets, being depreciated:					
Furniture/equipment	\$ 195,078	\$ -	\$ -		\$ 195,078
Less: accumulated depreciation	<u>(157,392)</u>	<u>(4,133)</u>	<u>-</u>		<u>(161,525)</u>
Business-type activities capital assets, net	<u>\$ 37,686</u>	<u>\$ (4,133)</u>	<u>\$ -</u>		<u>\$ 33,553</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In the current fiscal year, the District entered into a capital lease agreement for the acquisition of computers and networking equipment. 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 computer and networking equipment and school buses have been capitalized in the amount of \$1,691,349. 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 2007 fiscal year totaled \$25,463 and \$6,988, respectively. These amounts are reported as debt service payments of the general fund.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2007:

Year Ending June 30	Amount
2008	\$ 817,781
2009	425,116
2010	415,989
2011	11,949
2012	11,949
Total minimum lease payment	1,682,784
Less: amount representing interest	(123,464)
Present value of minimum lease payments	\$ 1,559,320

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 2007 Refunding General Obligation Bonds

On May 9, 2007, the District issued general obligation bonds (Series 2007 Refunding Bonds) to advance refund the callable portion of the Series 2004 school improvement current interest bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. The balance of the refunded current interest bonds at June 30, 2007, is \$47,140,000.

The refunding issue is comprised of both current interest bonds, par value \$45,195,000, and capital appreciation bonds par value \$1,944,953. The interest rates on the current interest bonds range from 4.00% - 4.50%. The capital appreciation bonds mature on each December 1, 2014 - 2017 (effective interest rate 15.821%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing each December 1, 2014 - 2017 is \$8,070,000. Total accreted interest of \$18,182 has been included in the statement of net assets at June 30, 2007.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2031.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The reacquisition price exceeded the net carrying amount of the old debt by \$2,810,361. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce the combined total debt service payments over the next 24 years by \$1,150,550 and resulted in an economic gain of \$750,400.

C. 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 \$364,993. 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 accreted value at maturity for the capital appreciation bond maturing December 1, 2012 is \$575,000 and the accreted value at maturity for the capital appreciation bond maturing December 1, 2013 is \$575,000. Total accreted interest of \$231,167 has been included on the statement of net assets.

D. 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 \$304,996. 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 accreted value at maturity for the capital appreciation bonds maturing each December 1, 2008 - 2010 is \$990,000. Total accreted interest of \$397,416 has been included on the statement of net assets.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. Series 2006 Construction Bonds

On August 30, 2006, the District issued \$13,499,995 in general obligation bonds to provide financing for various construction projects. The issue is comprised of both current interest bonds, par value \$13,330,000, and capital appreciation bonds, par value \$169,995. The interest rates on the current interest bonds range from 3.50% - 5.00%. The capital appreciation bonds mature each December 1, 2015 through 2016 (effective interest 17.253%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bond maturing December 1, 2015 is \$400,000 and the accreted value at maturity for the capital appreciation bond maturing December 1, 2017 is \$450,000. Total accreted interest of \$21,407 has been included on the statement of net assets.

F. 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
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. The following is a summary of the bond and loan activity for fiscal 2007:

	Balance 06/30/06	Additions	Deletions	Balance 06/30/07	Amounts due in One Year
<u>General Obligation Bonds:</u>					
Series 1986, improvement 7.875%, 12/01/06 maturity	\$ 630,000	\$ -	\$ (630,000)	\$ -	\$ -
Series 2003, library improvement 1.20 - 4.50%, 12/01/23 maturity	12,010,000	-	(350,000)	11,660,000	360,000
Series 2004, school improvement current interest bonds 2.75-5.25%, 12/01/31 maturity	61,645,000	-	(49,265,000)	12,380,000	2,530,000
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 accreted interest	139,623	78,739	-	218,362	-
Series 2002, refunding current interest bonds 2.79%, 12/01/11 maturity	3,025,000	-	(465,000)	2,560,000	475,000
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 accreted interest	169,297	61,870	-	231,167	-
Series 2001, refunding current interest bonds 4.14%, 12/01/15 maturity	2,430,000	-	(305,000)	2,125,000	315,000
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 accreted interest	305,726	91,690	-	397,416	-

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/07</u>	<u>Amounts</u> <u>due in</u> <u>One Year</u>
<u>General Obligation Bonds:</u>					
Series 2006, school improvement current interest bonds 3.50-5.00%, 12/01/31 maturity	\$ -	\$ 13,330,000	\$ -	\$ 13,330,000	\$ 150,000
Series 2006, school improvement capital appreciation bonds 5.55%, 12/01/13 maturity	-	169,995	-	169,995	-
Series 2006, school improvement capital appreciation bonds accreted interest	-	21,407	-	21,407	-
Series 2007, refunding current interest bonds 2.79%, 12/01/11 maturity	-	45,195,000	-	45,195,000	1,220,000
Series 2002, refunding capital appreciation bonds 11.279% (average effective) 12/01/12 and 13	-	1,944,953	-	1,944,953	-
Series 2002, refunding capital appreciation bonds accreted interest	-	18,182	-	18,182	-
Total Bonds	<u>\$ 82,284,622</u>	<u>\$ 60,911,836</u>	<u>\$ (51,015,000)</u>	<u>\$ 92,181,458</u>	<u>\$ 5,050,000</u>

F. Principal and interest requirements to retire general obligation bonds and refunding bonds outstanding at June 30, 2007 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 3,040,000	\$ 1,516,179	\$ 4,556,179
2009	1,700,000	1,444,221	3,144,221
2010	1,885,000	1,385,017	3,270,017
2011	2,245,000	1,301,662	3,546,662
2012	2,335,000	1,206,324	3,541,324
2013 - 2017	7,465,000	4,853,248	12,318,248
2018 - 2022	6,905,000	3,489,717	10,394,717
2023 - 2027	5,805,000	1,861,489	7,666,489
2028 - 2032	4,805,000	810,796	5,615,796
2033	1,185,000	25,922	1,210,922
Total	<u>\$ 37,370,000</u>	<u>\$ 17,894,575</u>	<u>\$ 55,264,575</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ending June 30	Current Interest			Capital Appreciation		
	Refunding Bonds (Series 2001)			Refunding Bonds (Series 2001)		
	Principal	Interest	Total	Principal	Interest	Total
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	330,000	80,605	410,605	-	-	-
2013 - 2016	1,480,000	148,470	1,628,470	-	-	-
Total	\$ 2,125,000	\$ 590,214	\$ 2,715,214	\$ 304,996	\$ 685,004	\$ 990,000

Fiscal Year Ending June 30	Current Interest			Capital Appreciation		
	Refunding Bonds (Series 2002)			Refunding Bonds (Series 2002)		
	Principal	Interest	Total	Principal	Interest	Total
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	550,000	10,313	560,313	-	-	-
2013 - 2014	-	-	-	364,993	785,007	1,150,000
Total	\$ 2,560,000	\$ 235,939	\$ 2,795,939	\$ 364,993	\$ 785,007	\$ 1,150,000

Fiscal Year Ending June 30	Current Interest			Capital Appreciation		
	Refunding Bonds (Series 2007)			Refunding Bonds (Series 2007)		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 1,220,000	\$ 2,097,712	\$ 3,317,712	\$ -	\$ -	\$ -
2009	395,000	1,943,196	2,338,196	-	-	-
2010	410,000	1,927,096	2,337,096	-	-	-
2011	425,000	1,910,396	2,335,396	-	-	-
2012	440,000	1,893,096	2,333,096	-	-	-
2013 - 2017	940,000	9,271,480	10,211,480	1,454,291	4,165,709	5,620,000
2018 - 2022	10,435,000	8,354,514	18,789,514	490,662	1,959,338	2,450,000
2023 - 2027	15,405,000	5,257,012	20,662,012	-	-	-
2028 - 2032	15,525,000	1,625,965	17,150,965	-	-	-
Total	\$ 45,195,000	\$ 34,280,467	\$ 79,475,467	\$ 1,944,953	\$ 6,125,047	\$ 8,070,000

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ending June 30	Capital Appreciation School Improvement Bonds (Series 2004)			Capital Appreciation School Improvement Bonds (Series 2006)		
	Principal	Interest	Total	Principal	Interest	Total
	2008	\$ -	\$ -	\$ -	\$ -	\$ -
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013 - 2017	<u>1,259,987</u>	<u>850,013</u>	<u>2,110,000</u>	<u>169,995</u>	<u>680,005</u>	<u>850,000</u>
Total	<u>\$ 1,259,987</u>	<u>\$ 850,013</u>	<u>\$ 2,110,000</u>	<u>\$ 169,995</u>	<u>\$ 680,005</u>	<u>\$ 850,000</u>

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

	Balance 06/30/06	Additions	Reductions	Balance 06/30/07	Amount Due in One Year
Governmental Activities:					
Compensated absences payable	\$ 5,642,462	\$ 865,614	\$ (479,808)	\$ 6,028,268	\$ 561,384
Retirement incentives payable	3,320,598	41,650	(680,021)	2,682,227	701,517
General obligation bonds payable	82,284,622	60,911,836	(51,015,000)	92,181,458	5,050,000
Notes payable	15,000,000	20,000,000	(15,000,000)	20,000,000	20,000,000
Capital lease obligation	<u>123,797</u>	<u>1,460,986</u>	<u>(25,463)</u>	<u>1,559,320</u>	<u>758,259</u>
Total governmental activities long-term liabilities	<u>\$ 106,371,479</u>	<u>\$ 83,280,086</u>	<u>\$ (67,200,292)</u>	\$ 122,451,273	<u>\$ 27,071,160</u>
Less: Unamortized deferred charge on refunding				(2,943,448)	
Add: Unamortized premium on refunding				<u>4,713,520</u>	
Total on statement of net assets				<u>\$ 124,221,345</u>	
Business-Type Activities:					
Compensated absences	<u>\$ 113,548</u>	<u>\$ 2,803</u>	<u>\$ (252)</u>	<u>\$ 116,099</u>	<u>\$ 493</u>
Total business-type activities long-term liabilities	<u>\$ 113,548</u>	<u>\$ 2,803</u>	<u>\$ (252)</u>	<u>\$ 116,099</u>	<u>\$ 493</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, Note 12 for further detail on the District's retirement incentive programs and Note 9 for further detail on the District's capital lease obligations.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$20,729,076 (including available funds of \$25,176,244) and an unvoted debt margin of \$964,975.

NOTE 11 - NOTES PAYABLE

The District had the following note activity during fiscal 2007:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/07</u>
School Improvement	9/14/2005	9/14/2006	15,000,000	-	(15,000,000)	-
School Improvement	9/26/2006	9/26/2007	-	20,000,000	-	20,000,000
Total			<u>\$ 15,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ (15,000,000)</u>	<u>\$ 20,000,000</u>

School Improvement Notes

On September 26, 2006, the District issued \$20,000,000 in bond anticipation notes to continue various construction projects. These notes were retired on September 25, 2007, with proceeds of notes issued on August 10, 2007. 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". See Note 21 for more detail.

NOTE 12 - OTHER EMPLOYEE BENEFITS

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 2006. 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, 2007 was \$2,682,227 of which \$701,517 is due within one year and \$1,980,710 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".

**LAKESWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 2007, 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)	\$173,282,750
Inland Marine Coverage (\$500 deductible)	98,900
Boiler and Machinery (\$5,000 per location deductible)	173,282,750
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	1,000,000
Aggregate per year	1,000,000

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 except for general liability insurance which carried per occurrence and aggregate limits of \$3,000,000 and \$5,000,000, respectively at June 30, 2006. These amounts were lowered to per occurrence and aggregate limits of \$1,000,000 and \$1,000,000, respectively at June 30, 2007.

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.

C. Group Health and Dental Insurance

For fiscal 2007, the District was a participant in the Suburban Health Consortium (the "Consortium") to provide employee health, dental, vision and prescription drug benefits. The Consortium is administered by Medical Mutual. Payments are made to the Consortium for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the Consortium is the 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.

**LAKESIDE CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - RISK MANAGEMENT – (Continued)

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

	Board Share of Premium			
	Full-Time Family	Part-Time Family	Full-Time Single	Part-Time Single
Health:				
Suburban Health Consortium	\$ 715.28	\$ 357.64	\$ 301.17	\$ 150.99
Kaiser (HMO)	715.28	357.64	330.81	165.41
Prescription drug	203.31	101.66	85.60	42.80
Dental	85.06	42.53	30.88	15.44
Vision	9.40	4.70	2.32	1.16
Health/Employees covered by a working spouse:				
Suburban Health Consortium	607.99	304.00	301.17	150.59
Prescription drug	172.80	86.40	85.60	42.80

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, under Forms and Publications.

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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. 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. 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 2007, 2006, and 2005 were \$1,058,934, \$1,024,860, and \$782,683, 37.77 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$659,009 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - PENSION PLANS - (Continued)

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.

For the fiscal year ended June 30, 2007, 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 STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$4,454,354, \$4,408,350, and \$3,983,995; 83.17 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$749,844 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$51,153 made by the District and \$95,932 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$342,643 for fiscal year 2007.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their 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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$475,594 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 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. 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. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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); and
- (d) Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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	\$ (760,830)
Net adjustment for revenue accruals	983,512
Net adjustment for expenditure accruals	(2,598,140)
Net adjustment for other sources/uses	1,568,486
Adjustment for encumbrances	<u>1,843,809</u>
GAAP basis	<u>\$ 1,036,837</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2006	\$ (4,515,809)	\$ -
Current year set-aside requirement	945,990	945,990
Qualifying disbursements	<u>(1,630,227)</u>	<u>(1,614,521)</u>
Total	<u>\$ (5,200,046)</u>	<u>\$ (668,531)</u>
Balance carried forward to FY 2008	<u>\$ (5,200,046)</u>	<u>\$ -</u>

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

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

NOTE 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 are 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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 19 - 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 6/30/07</u>	<u>Contractual Commitment</u>
Valley Electric	\$ 1,624,830	\$ (1,316,102)	\$ 308,728
Blaze Construction	10,308,000	(7,342,956)	2,965,044
Baumann Enterprises	165,000	-	165,000
Gardner Trane: Temp controls	683,750	(621,884)	61,866
Ed Burdue	437,500	(38,451)	399,049
John F. Gallagher	838,494	(674,694)	163,800
LEPI Enterprises	148,285	-	148,285
Fire Protection: Harding	236,520	(233,731)	2,789
Panzica	5,323,100	(4,772,284)	550,816
Soehnlén Piping	760,900	(655,195)	105,705
TH Martin	603,700	(489,818)	113,882
Titan Wrecking	244,200	-	244,200
Price & James: Harding	1,372,900	(1,123,076)	249,824
RJ Martin: Hayes	859,700	(750,415)	109,285
Steingass: Hayes	463,000	(275,375)	187,625
Gross: Hayes	109,675	(102,219)	7,456
CT Taylor: Harrison	6,356,100	(4,168,592)	2,187,508
CT Taylor: Harrison: Gym Floor	72,750	(57,355)	15,395
Gross: Harrison: Fire Protection	119,982	(111,494)	8,488
Price & James: Harrison	674,900	(534,532)	140,368
RJ Martin: Harrison	1,028,062	(1,028,062)	-
Steingass: Harrison	505,000	(301,539)	203,461
RJ Martin: Garfield	1,468,030	(578,949)	889,081
Gross: Garfield: HVAC	1,241,025	(1,211,971)	29,054
Gross: Garfield: Fire Protection	195,000	(171,049)	23,951
CT Taylor: Garfield	12,813,000	(8,518,856)	4,294,144
CT Taylor: Garfield: Gym Floor	79,800	(63,350)	16,450
Total	<u>\$ 48,733,203</u>	<u>\$ (35,141,949)</u>	<u>\$ 13,591,254</u>

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 20 – LAKEWOOD CITY ACADEMY

The Lakewood City Academy (the “Academy”) is a discretely presented component unit of the Lakewood City School District (the “District”). The District is the Sponsor of the Academy. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. This separately issued financial report can be obtained from the Treasurer of the Academy at 1470 Warren Road, Lakewood, OH 44107-3918.

Summary of Significant Accounting Policies

The basic financial statements (BFS) of the Academy 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 Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

A. Basis of Presentation

The Academy’s basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been 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.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy’s basic financial statements are prepared using the accrual basis of accounting.

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.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 20 – LAKEWOOD CITY ACADEMY – (Continued)

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time that they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

E. Cash

All monies received by the Academy are deposited in a demand deposit account.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$500. The Academy does not have 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 capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Equipment is depreciated over 5-10 years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for state and federally funded programs.

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 20 – LAKWOOD CITY ACADEMY – (Continued)

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program through the Ohio Department of Education, the State of Ohio Educational Management Information System grant, the State of Ohio Core Implementation grant, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the Federal Title V-Innovative Programs grant, the Federal Title IV Drug Free Schools grant, the Federal Title II-A Improving Teacher Quality grant, the Federal Title II-D Technology Grant and the Federal LCA Start-Up grant. Revenues from these programs are recognized in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue for the fiscal year 2007 was \$335,186.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

Deposits

At June 30, 2007, the carrying amount of the Academy's deposits was \$227,179. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$127,179 of the Academy's bank balance of \$227,179 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy'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 Academy.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 20 – LAKEWOOD CITY ACADEMY – (Continued)

Capital assets

Capital asset activity for the fiscal year 2007 was as follows:

	<u>Balance at</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2007</u>
Furniture and equipment	\$ 16,314	\$ 98,802	\$ -	\$ 115,116
Less: accumulated depreciation	<u>(1,399)</u>	<u>(18,433)</u>	<u>-</u>	<u>(19,832)</u>
Capital assets, net	<u>\$ 14,915</u>	<u>\$ 80,369</u>	<u>\$ -</u>	<u>\$ 95,284</u>

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2007, the Academy was named on the Sponsor’s policy for property and general liability insurance. The Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000, Executive Director \$20,000 and Board of Directors \$20,000.

Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

B. Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

The Academy is not involved in any other litigation that, in the opinion of management, would have a material effect of the financial statements.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 20 – LAKEWOOD CITY ACADEMY – (Continued)

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which state foundation funding is calculated. The Academy has not been reviewed as of June 30, 2007. The Academy does not anticipate any significant adjustments to state funding for fiscal year 2008, as a result of the reviews which have yet to be completed.

Receivables

The Academy had the following intergovernmental receivable at June 30, 2007:

Title II-D Technology Grant	\$ 264
Total	<u>\$ 264</u>

The intergovernmental receivable is expected to be collected in the subsequent year.

Service Agreements

A. Tri-Rivers Educational Computer Association

The Academy entered into a one-year agreement on July 17, 2006, with Tri-Rivers Educational Computer Association (“TRECA”) for planning, instructional, administrative and technical services required for the operation of the Academy. During the fiscal year 2007, the Academy paid TRECA \$228,482 for services under the agreement. Under the contract, TRECA is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy’s educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$900 per student.
4. Curricular services limited to standardized curriculum developed by TRECA.

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 20 – LAKWOOD CITY ACADEMY – (Continued)

For these services, the Academy is required to pay the following fees to TRECA:

Enrollment - \$3,650 per full-time student enrolled per year. In case of a student enrolled with an IEP, the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, actual costs for that student provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student.

Note: In the event that payments to the Academy from the Department of Education are reduced, the payments due from the Academy to TRECA shall be reduced accordingly.

B. Lakewood City School District

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Lakewood City School District outlined the specific payments to be made by the Academy to Lakewood City School District during the fiscal year 2007. In addition the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood City School District. The Academy paid Lakewood City School District \$621,279 during the fiscal year 2007 for services rendered under the Community School Sponsorship Contract and the annual Purchased Services Contract.

NOTE 21 - SIGNIFICANT SUBSEQUENT EVENTS

On August 9, 2007, the District issued \$43,779,966 in general obligation school improvement bonds, Series 2007.

On August 10, 2007, the District issued \$20,000,000 in school improvement bond anticipation notes to retire the \$20,000,000 in general obligation notes that were issued on September 26, 2006.

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**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution	N/A	10.550		\$80,883		\$80,883
Nutrition Cluster:						
National School Breakfast Program	044198-05PU-2006	10.553	17,230		17,230	
National School Breakfast Program	044198-05PU-2007	10.553	48,209		48,209	
Subtotal National School Breakfast Program			65,439	0	65,439	0
National School Lunch Program	044198-LLP4-2006	10.555	177,761		177,761	
National School Lunch Program	044198-LLP4-2007	10.555	456,043		456,043	
Subtotal National School Lunch Program			633,804	0	633,804	0
Total Nutrition Cluster			699,243	0	699,243	0
Child Care Food Program	044198-CCMO-2006	10.558	1,046		1,046	
Total U.S. Department of Agriculture			700,289	80,883	700,289	80,883
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Title VI-B Special Educ. Grants to States IDEA Part B Parent Mentor	044198-6BPM-2006	84.027	2,068		2,626	
Title VI-B Special Educ. Grants to States IDEA Part B	044198-6BSD-2006	84.027	4,979		9,198	
Title VI-B Special Educ. Grants to States IDEA Part B	044198-6BSD-2007	84.027	43,306		52,426	
Title VI-B Special Educ. Grants to States IDEA Part B	044198-6BSF-2006	84.027	81,776		144,089	
Title VI-B Special Educ. Grants to States IDEA Part B	044198-6BSF-2007	84.027	1,457,143		1,478,725	
Subtotal IDEA Part B			1,589,272	0	1,687,064	0
Special Education Preschool Grants	044198-PGS1-2006	84.173	10,442		12,004	
Special Education Preschool Grants	044198-PGS1-2007	84.173	78,826		70,294	
Subtotal Special Education Preschool Grants			89,268	0	82,298	0
Total Special Education Cluster			1,678,540	0	1,769,362	0
Adult Education State Grant Program	044198-ABS1-2005	84.002	10,726		10,749	
Adult Education State Grant Program	044198-ABS1-2006	84.002	(1,211)		3,185	
Adult Education State Grant Program	044198-ABS1-2007	84.002	72,426		76,547	
Adult Education State Grant Program	044198-ABS2-2006	84.002	(566)		2,143	
Adult Education State Grant Program	044198-ABS2-2007	84.002	33,457		33,971	
Total Adult Education State Grant Program			114,832	0	126,595	0
Vocational Education Basic Grants to State	044198-20A0-2005	84.048	10,000		510	
Vocational Education Basic Grants to State	044198-20C1-2006	84.048	40,117		17,862	
Vocational Education Basic Grants to State	044198-20C1-2007	84.048	157,342		146,531	
Total Vocational Education Basic Grants to State Program			207,459	0	164,903	0
America's Career Resource Network (ACRN)	044198-OE00-2006	84.346	5,649		5,760	
America's Career Resource Network (ACRN)	044198-OE00-2007	84.346	12,000		11,984	
Total ACRN Grant			17,649	0	17,744	0
Title I, ESEA	044198-C1S1-2006	84.010	(13,377)		36,778	
Title I, ESEA	044198-C1S1-2007	84.010	957,572		925,772	
Total Title I, ESEA			944,195	0	962,550	0
Title IV Safe and Drug Free Schools State Grant	044198-DRS1-2006	84.186	(2,446)		2,202	
Title IV Safe and Drug Free Schools State Grant	044198-DRS1-2007	84.186	15,481		12,826	
Total Safe and Drug Free Schools State Grant			13,035	0	15,028	0
Title V - Innovative Programs	044198-C2S1-2006	84.298	818		434	
Title V - Innovative Programs	044198-C2S1-2007	84.298	18,087		20,317	
Total Title V Innovative Programs			18,905	0	20,751	0
Title IIA Improving Teacher Quality	044198-TRS1-2006	84.367	60,802		70,553	
Title IIA Improving Teacher Quality	044198-TRS1-2007	84.367	359,794		329,618	
Total Title IIA Improving Teacher Quality			420,596	0	400,171	0
Title IID - Education Technology State Grant	044198-TJS1-2006	84.318	751		0	
Title IID - Education Technology State Grant	044198-TJS1-2007	84.318	6,315		2,106	
Total Title IID - Education Technology State Grant			7,066	0	2,106	0
Title III - Limited English Proficiency Grant	044198-T3S1-2006	84.365	(12,196)		2,681	
Title III - Limited English Proficiency Grant	044198-T3S1-2007	84.365	122,667		107,797	
Total Title III - Limited English Proficiency Grant			110,471	0	110,478	0
Total U.S. Department of Education			3,532,748	0	3,589,688	0

**LAKEWOOD CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Health & Human Services</u>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance - Medicaid Title XIX	N/A	93.778	168,446	0	0	0
<i>Passed through the Educational Service Center of Cuyahoga County</i>						
Refugee Children Impact Program	N/A	93.576	3,967	0	3,000	0
<i>Passed through Cuyahogy County Commissioners, Office of Health and Family Services</i>						
ABLE Plus/TANF	N/A	93.558	118,577	0	135,520	0
Total U.S. Department of Health & Human Services			<u>290,990</u>	<u>0</u>	<u>138,520</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$4,524,027</u>	<u>\$80,883</u>	<u>\$4,428,497</u>	<u>\$80,883</u>

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

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007, 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.

NOTE D – FEDERAL TRANSFERS

The Ohio Department of Education (ODE) transferred federal grant monies from grant year 2006 to grant year 2007 for the Adult Education State Grant Program (CFDA #84.002), Title I Part A ESEA (CFDA #84.010), Title IV Safe and Drug Free Schools State Grant (CFDA #84.186), and Title III Limited English Proficiency Grant (CFDA #84.365). These transfers appear as negative receipts in the 2006 grant year and as positive receipts in the 2007 grant year. These transfers by ODE allowed the District to extend the availability period for expenditure of these receipts.

NOTE E – MEDICAID COMMUNITY ALTERNATIVE FUNDING SYSTEM (CAFS) PAYMENTS

During the fiscal year ending June 30, 2007, the District received \$168,446.00 in Medicaid settlement payments. The amounts received related to settlements for CAFS service provided during prior years.

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

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, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 7, 2008, wherein we noted the District restated capital assets to reflect a change in capitalization threshold. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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www.auditor.state.oh.us

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above, finding number 2007-003, is also a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated May 7, 2008.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated May 7, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

May 7, 2008



Mary Taylor, CPA

Auditor of State

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

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, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Mary Taylor, CPA
Auditor of State

May 7, 2008

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: Special Education Grants to States/84.027, Parent / Mentor Project/84.027 Special Education - Preschool Grants/84.173 Title I, Part A, ESEA/84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

Finding Number	2007- 001
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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 fund, which was corrected by year-end, had expenditures plus encumbrances exceeding authorized appropriations at the legal level of control during the year:

December 31, 2006

Fund	Appropriations	Expenditures Plus Encumbrances	Variance
School Net Professional Development Fund (452)	\$3,300	\$3,925	(\$625)

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).

Finding Number	2007- 002
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Negative Balances – Noncompliance Finding

Ohio Rev. Code Section 5705.10 (H) states money paid into any fund shall be used only for the purposes for which that fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2006, the District had the following negative cash fund balance and negative unencumbered fund balance, which were corrected by year-end:

Fund	Negative Cash Balance	Negative Fund Balance
Special Trust Fund (007)	(\$99,096)	(\$100,489)
Recreation Fund (013)	(62,558)	(63,155)

**LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)**

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

Finding Number	2007- 002
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Negative Balances – Noncompliance Finding (Continued)

We recommend the District utilize cash advances to this fund or other appropriate measures to ensure negative fund balances do not exist throughout the year.

Official's Response: The Treasurer will conduct a closer monitoring of budgetary activity to ensure that negative cash fund balances and negative unencumbered fund balances are corrected during the year in accordance with Ohio Revised Code Section 5705.10 (H).

Finding Number	2007- 003
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Statement on Auditing Standards 112 - Effects on Annual Financial Report – Material Weakness

Paragraph 18 of the *Statement on Auditing Standards 112* documents that the identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal control is a strong indicator of a material weakness even if management subsequently corrects the misstatement.

Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, to the District's accounting records:

1. The District misclassified extracurricular revenue received in the Public School Support Fund and Athletics Fund as other local revenue. The District posted \$360,378 in the Public School Support Fund and \$536,232 in the Athletics Fund to other local revenue rather than extracurricular revenue.
2. During our search for unrecorded liabilities, we identified \$720,869 the District should have recorded as contracts payable in the Building Fund. The understatement in contracts payable also understated construction in progress for governmental activities.
3. During our search for unrecorded liabilities, we identified a capital lease for miscellaneous computer/networking equipment for \$1,460,986 the District did not properly capitalize.
4. The District failed to capitalize an additional \$513,586 in capital asset additions (e.g., land, vehicles, and furniture/equipment) for governmental activities.
5. The District's Federal Awards Receipts and Expenditures Schedule required several and sometimes significant corrections. The District erroneously included advances, did not maintain a special cost center for each grant year, erroneously posted federal receipts, erroneously posted a Catalog of Federal Domestic Assistance (CFDA) number, and when transferring monies from one grant year to another the District did not post the negative receipt to the schedule.

LAKWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(Continued)

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

Finding Number	2007- 003
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**Statement on Auditing Standards 112 - Effects on Annual Financial Report – Material Weakness
(Continued)**

The following adjustments were inconsequential to the overall financial statements of the District and were not posted to the financial statements but were posted to the current year summary of unadjusted differences:

1. The District erroneously performed various adjustments or movements of federal monies from one grant year to another to close out a grant. Additionally, adjustments from one specific grant were even spread amongst other grants without clear justification.
2. The District posted personal property exempt taxes to a tax account rather than an intergovernmental revenue account as prescribed.
3. The District overstated accrued wages and understated pension obligation payable by \$25,577 in the Food Service Fund.
4. The District had insignificant errors relating to due from other governments and deferred revenue in various grant funds.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the Board of Education adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the District and thereby increasing the reliability of the financial data throughout the year.

Official's Response: Management concurs with the finding.

**LAKEWOOD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-001	Ohio Rev. Code Section 5705.41 (B) – Expenditures Plus Encumbrances Exceeding Appropriations	No	Reissued as Schedule of Findings item 2007-001.



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 5, 2008