



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

South Euclid-Lyndhurst City School District
Cuyahoga County
5044 Mayfield Road
Lyndhurst, Ohio 44124

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the District restated their General Fund July 1, 2005 fund balance due to an understatement of accrued benefits liabilities and prepaid items. The District also restated their July 1, 2005 net assets due to an overstatement of capital assets and understatement of prepaid items.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

May 11, 2007

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Management's discussion and analysis of the South Euclid-Lyndhurst City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- For governmental activities, net assets increased \$3,012,309. This is a 240.8 percent increase from fiscal year 2005.
- For governmental activities, total revenues increased to \$58,908,336 from \$55,749,073 in fiscal year 2005. This was an increase of \$3,159,263, or 5.7 percent.
- Total program expenses were \$55,896,026. Total program expenses increased from \$55,002,827 in fiscal year 2005. This is an increase of \$893,199, or 1.6 percent.
- The School District had \$55,896,026 in expenses related to governmental activities; only \$7,976,104 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$50,932,231 were adequate to provide for these programs.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a whole entire operating entity. The basic financial 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 School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the South Euclid-Lyndhurst City School District, the general fund is by far the most significant fund.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The analysis of the School District as a whole begins on page 5. While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and non-instructional services, i.e., food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 7. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant fund. The School District's only major governmental fund is the general fund.

Governmental Funds - Most of the School 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 School 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.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

(Table 1)
Net Assets as of June 30,

	Governmental Activities	
	2006	Restated 2005
Assets		
Current and Other Assets	\$ 55,245,963	\$ 48,820,277
Capital Assets	6,869,055	6,824,290
<i>Total Assets</i>	62,115,018	55,644,567
Liabilities		
Current and Other Liabilities	46,723,237	42,846,117
Long-term Liabilities:		
Due Within One Year	997,600	1,299,255
Due in More than One Year	10,131,216	10,248,539
<i>Total Liabilities</i>	57,852,053	54,393,911
Net Assets		
Invested in Capital		
Assets Net of Debt	(2,377,438)	(3,373,826)
Restricted	4,066,032	3,094,255
Unrestricted	2,574,371	1,530,227
<i>Total Net Assets</i>	\$ 4,262,965	\$ 1,250,656

Total net assets increased by \$3,012,309. Total assets increased by \$6,470,451 which was primarily due to an increase in cash and taxes receivable. The increase of \$44,765 in capital assets is attributed to capital asset acquisitions exceeding depreciation expense during fiscal year 2006.

Total liabilities increased \$3,458,142. This increase reflects the increase in deferred revenue relating to the increase in taxes receivable.

Table 2 shows the changes in net assets for fiscal years 2006 and 2005. This table presents two fiscal years in side-by-side comparisons. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

(Table 2)
Changes in Net Assets

	Governmental Activities	
	2006	Restated 2005
Revenues:		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 3,201,007	\$ 3,011,548
Operating Grants and Contributions	4,465,322	3,200,220
Capital Grants and Contributions	309,775	36,750
Total Program Revenues	7,976,104	6,248,518
<i>General Revenues:</i>		
Property Taxes	38,684,358	35,523,063
Grants and Entitlements	11,156,136	13,531,208
Investment Earnings	492,783	178,663
Miscellaneous	598,954	265,715
Gain on the Sale of Capital Assets	0	1,906
Total General Revenues	50,932,231	49,500,555
Total Revenues	58,908,335	55,749,073
Expenses:		
<i>Instruction:</i>		
Regular	21,352,953	20,894,896
Special	6,549,464	6,194,636
Vocational	1,409,145	1,186,252
Other	987,059	807,182
<i>Support Services:</i>		
Pupils	3,334,575	3,140,185
Instructional Staff	1,351,218	1,433,588
Board of Education	263,949	147,137
Administration	3,585,133	3,368,278
Fiscal	1,320,223	1,276,887
Business	296,432	376,732
Operations and Maintenance of Plant	7,101,430	6,996,756
Pupil Transportation	3,003,309	3,026,702
Central	1,087,937	1,245,094
<i>Operation of Non-Instructional Services</i>		
Food Service Operation	1,598,960	1,491,883
Community Services	1,189,292	1,697,974
Extracurricular Activities	904,805	1,017,416
Interest and Fiscal Charges	560,142	701,229
Total Expenses	55,896,026	55,002,827
Change in Net Assets	\$ 3,012,309	\$ 746,246

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Governmental Activities

While program revenues increased for governmental activities from \$6,248,518 in fiscal year 2005 to \$7,976,104 in fiscal year 2006, the vast majority of revenues supporting governmental activities are general revenues. General revenues increased from \$49,500,555 in fiscal year 2005 to \$50,932,231 in fiscal year 2006. General revenues comprised 86.5 percent of revenues supporting governmental activities. The primary source for the increase was property taxes, which showed an increase from fiscal year 2005 to fiscal year 2006 of \$3,161,295.

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 65.7 percent of revenue for governmental activities for the School District in fiscal year 2006.

Program expenses increased from \$55,002,827 in fiscal year 2005 to \$55,896,026 in fiscal year 2006, a 1.6 percent increase. The School District's largest program expense is instructional services, which increased by approximately 4.2 percent from fiscal year 2005 to 2006. These expenses comprised 54.2 percent of the School District's total expenses. When combined with pupil and instructional support, these categories make up 60.2 percent of expenses.

Total governmental expenses of \$55,896,026 were mostly offset by program revenues of \$7,976,104, general revenues of \$50,932,231 and prior year cash balances. Program revenues made up 7.4 percent of total governmental revenue. The net assets of the School District's governmental activities increased by \$3,012,309.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

(Table 3)
Governmental Activities

	Total Cost of Service 2006	Total Cost of Service Restated 2005	Net Cost of Service 2006	Net Cost of Service Restated 2005
Instruction	\$ 30,298,621	\$ 29,082,966	\$ (26,122,656)	\$ (26,578,043)
Support Services:				
Pupil and Instructional Staff	4,685,793	4,573,773	(4,189,438)	(4,112,642)
Board of Education, Administration, Business and Fiscal	5,465,737	5,169,034	(5,465,737)	(5,116,084)
Operation and Maintenance of Plant	7,101,430	6,996,756	(7,101,430)	(6,996,754)
Pupil Transportation	3,003,309	3,026,702	(2,934,562)	(3,026,702)
Central	1,087,937	1,245,094	(1,045,201)	(1,159,758)
Operation of Non-Instructional Services:				
Community Services	1,189,292	1,697,974	322,663	(50,231)
Food Service Operations	1,598,960	1,491,883	(112,074)	(192,171)
Extracurricular Activities	904,805	1,017,416	(711,345)	(820,695)
Interest and Fiscal Charges	560,142	701,229	(560,142)	(701,229)
Total Expenses	<u>\$ 55,896,026</u>	<u>\$ 55,002,827</u>	<u>\$ (47,919,922)</u>	<u>\$ (48,754,309)</u>

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

The School District's Funds

Information on the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$57,289,181, exclusive of Other Financing Sources and expenditures of \$56,706,855, exclusive of Other Financing Uses. The net change in fund balance for the year was most significant in the other governmental funds, where the fund balance increased by \$1,156,381 for fiscal year 2006.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the District did modify its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue (exclusive of other financing sources) of \$50,715,879 was lower than the original budget estimate of \$51,242,178 by \$526,299.

For the general fund, final budget basis expenditures (exclusive of other financing uses) were \$935,191 over the original budget estimate of \$50,335,359. This increase was largely due to final estimated expenditures being slightly more than the original estimates.

Total actual expenditures on the budget basis were \$50,505,135, \$400,744 over actual revenues. This is largely attributable to the fact that the School District transferred \$543,000 to other funds for various purposes.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$6,869,055 invested in land, buildings and building improvements, furniture and equipment and vehicles. See Note 9 for additional details. Table 4 shows fiscal year 2006 balances compared with 2005.

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

	2006	Restated 2005
Land	\$ 693,109	\$ 693,109
Buildings and Improvements	3,802,732	3,490,843
Furniture and Equipment	1,517,672	1,656,057
Vehicles	855,542	984,281
Totals	\$ 6,869,055	\$ 6,824,290

The \$44,765 increase in capital assets was attributable to additional purchases exceeding depreciation.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Senate Bill 345 requires school districts to set aside \$155.07 per pupil of certain general fund revenues in each of two areas, one for the purchase of textbooks and instructional materials and the other for capital improvements (see Note 22). For fiscal year 2006, this amounted to \$694,500 for each set aside. The District has qualifying disbursements or offsets exceeding these requirements for textbooks. This amount may be used to reduce the set-aside requirement of future years. The District also had qualifying expenditures during the year that reduced the capital acquisition set-aside amount below zero. This amount may not be used to reduce the set-aside requirements for future years.

Debt

At June 30, 2006, the District had \$9,757,571 in bonds outstanding with \$570,000 due within one year. See Note 13 for additional details. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	2006	2005
General Obligation Bonds		
School Improvement Bonds - 1993	\$ 0	\$ 5,910,000
School Improvement Bonds - 1996	220,000	4,215,000
School Improvement Refunding Bonds - 2006	9,537,571	0
<i>Total General Obligation Bonds</i>	\$ 9,757,571	\$ 10,125,000

Current Issues

As the preceding information shows, the School District heavily depends on its property taxpayers. The School District placed 6.7 mill operating levies on the ballot in March 2004 and August 2004. Both issues were not approved by the electors and \$750,000 in budget reductions were instituted in April 2004. The School District was on the ballot again on May 3, 2005 with a 6.7 mill current operating levy, which was approved by the electors. However, the School District was required to make \$2,500,000 in reductions for fiscal year 2006 in April 2005 in order to meet its financial operating needs for at least one more year.

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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

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

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Paul J. Pestello, Treasurer of South Euclid-Lyndhurst City School District, 5044 Mayfield Road, Lyndhurst, Ohio 44124 or pestello@sel.k12.oh.us.

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South Euclid-Lyndhurst City School District
Cuyahoga County
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 8,331,234
Receivables:	
Taxes	45,556,677
Accounts	5,169
Intergovernmental	708,389
Prepaid Items	476,231
Inventory Held For Resale	20,692
Deferred Charges	147,571
Nondepreciable Capital Assets	693,109
Depreciable Capital Assets (Net)	6,175,946
<i>Total Assets</i>	62,115,018
Liabilities	
Accounts Payable	594,513
Accrued Wages and Benefits	4,290,658
Matured Compensated Absences Payable	182,419
Accrued Interest Payable	29,672
Intergovernmental Payable	1,946,225
Deferred Revenue	38,179,750
Notes Payable	1,500,000
Long Term Liabilities:	
Due Within One Year	997,600
Due In More Than One Year	10,131,216
<i>Total Liabilities</i>	57,852,053
Net Assets	
Invested in Capital Assets, Net of Related Debt	(2,377,438)
Restricted for:	
Capital Outlay	1,819,565
Debt Service	572,876
Budget Stabilization	534,738
Other Purposes	1,138,853
Unrestricted	2,574,371
<i>Total Net Assets</i>	\$ 4,262,965

See accompanying notes and accountant's compilation report.

South Euclid-Lyndhurst City School District
Cuyahoga County
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Asset
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 21,352,953	\$ 1,610,159	\$ 280,741	\$ 241,028	\$ (19,221,025)
Special	6,549,464	48,747	1,855,979	0	(4,644,738)
Vocational	1,409,145	54,362	84,949	0	(1,269,834)
Other	987,059	0	0	0	(987,059)
Support Services:					
Pupils	3,334,575	0	480,587	0	(2,853,988)
Instructional Staff	1,351,218	0	15,768	0	(1,335,450)
Board of Education	263,949	0	0	0	(263,949)
Administration	3,585,133	0	0	0	(3,585,133)
Fiscal	1,320,223	0	0	0	(1,320,223)
Business	296,432	0	0	0	(296,432)
Operation and Maintenance of Plant	7,101,430	0	0	0	(7,101,430)
Pupil Transportation	3,003,309	0	0	68,747	(2,934,562)
Central	1,087,937	0	42,736	0	(1,045,201)
Operation of Non-Instructional Services:					
Food Service Operations	1,598,960	900,670	586,216	0	(112,074)
Community Services	1,189,292	396,879	1,115,076	0	322,663
Extracurricular Activities	904,805	190,190	3,270	0	(711,345)
Interest and Fiscal Charges	560,142	0	0	0	(560,142)
<i>Total Governmental Activities</i>	<u>\$ 55,896,026</u>	<u>\$ 3,201,007</u>	<u>\$ 4,465,322</u>	<u>\$ 309,775</u>	<u>(47,919,922)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	35,760,240
Debt Service	1,097,338
Capital Outlay	1,826,780
Grants and Entitlements not Restricted to Specific Programs	11,156,136
Investment Earnings	492,783
Miscellaneous	598,954
<i>Total General Revenues</i>	<u>50,932,231</u>
<i>Change in Net Assets</i>	3,012,309
<i>Net Assets Beginning of Year (Restated, See Note 3)</i>	<u>1,250,656</u>
<i>Net Assets End of Year</i>	<u>\$ 4,262,965</u>

See accompanying notes and accountant's compilation report.

South Euclid-Lyndhurst City School District
Cuyahoga County
Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,539,437	\$ 5,257,059	\$ 7,796,496
Restricted Assets:			
Cash and Cash Equivalents	534,738	0	534,738
Receivables:			
Taxes	42,346,826	3,209,851	45,556,677
Accounts	5,169	0	5,169
Interfund	6,500	0	6,500
Intergovernmental	405,372	303,017	708,389
Inventory Held For Resale	0	20,692	20,692
Prepaid Items	463,471	12,760	476,231
<i>Total Assets</i>	<u>\$ 46,301,513</u>	<u>\$ 8,803,379</u>	<u>\$ 55,104,892</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 352,371	\$ 242,142	\$ 594,513
Accrued Wages and Benefits	4,235,903	54,755	4,290,658
Matured Compensated Absences Payable	182,419	0	182,419
Interfund Payable	0	6,500	6,500
Intergovernmental Payable	1,904,487	41,738	1,946,225
Deferred Revenue	38,768,302	3,123,136	41,891,438
Accrued Interest Payable	0	8,500	8,500
Notes Payable	0	1,500,000	1,500,000
<i>Total Liabilities</i>	<u>45,443,482</u>	<u>4,976,771</u>	<u>50,420,253</u>
Fund Balances			
Reserved for Encumbrances	862,512	272,537	1,135,049
Reserved for Property Taxes	3,983,896	301,558	4,285,454
Reserved for Budget Stabilization	534,738	0	534,738
Unreserved:			
Undesignated, Reported in:			
General Fund	(4,523,115)	0	(4,523,115)
Special Revenue Funds	0	1,121,546	1,121,546
Debt Service Fund	0	766,638	766,638
Capital Projects Funds	0	1,364,329	1,364,329
<i>Total Fund Balances</i>	<u>858,031</u>	<u>3,826,608</u>	<u>4,684,639</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 46,301,513</u>	<u>\$ 8,803,379</u>	<u>\$ 55,104,892</u>

See accompanying notes and accountant's compilation report.

South Euclid-Lyndhurst City School District
Cuyahoga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances		\$ 4,684,639
 <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		6,869,055
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	3,091,473	
Intergovernmental	620,215	
Total		3,711,688
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		147,571
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(21,172)
In the statement of activities, bond refunding costs are amortized over the term of the bonds, whereas in governmental funds a bond refunding expenditure is reported when bonds are issued.		215,931
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	(9,115,000)	
Capital Appreciation Bonds	(494,995)	
Bond Premium	(363,507)	
Compensated Absences	(1,371,245)	
Total		(11,344,747)
<i>Net Assets of Governmental Activities</i>		\$ 4,262,965

See accompanying notes and accountant's compilation report.

South Euclid-Lyndhurst City School District
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$ 34,819,105	\$ 2,865,252	\$ 37,684,357
Intergovernmental	11,983,409	3,658,056	15,641,465
Investment Income	480,607	12,176	492,783
Tuition and Fees	1,028,577	138,851	1,167,428
Extracurricular Activities	84,937	105,253	190,190
Rentals	396,879	2,150	399,029
Charges for Services	86,507	952,481	1,038,988
Contributions and Donations	700	55,287	55,987
Payments in Lieu of Taxes	20,000	0	20,000
Miscellaneous	368,666	230,288	598,954
<i>Total Revenues</i>	<u>49,269,387</u>	<u>8,019,794</u>	<u>57,289,181</u>
Expenditures			
Current:			
Instruction:			
Regular	20,599,294	522,584	21,121,878
Special	5,753,516	830,490	6,584,006
Vocational	1,328,314	74,315	1,402,629
Other	987,059	0	987,059
Support Services:			
Pupils	2,932,689	395,797	3,328,486
Instructional Staff	1,086,916	194,633	1,281,549
Board of Education	263,393	556	263,949
Administration	3,441,674	93,925	3,535,599
Fiscal	1,323,318	850	1,324,168
Business	286,382	0	286,382
Operation and Maintenance of Plant	6,634,066	491,171	7,125,237
Pupil Transportation	2,820,266	41,377	2,861,643
Central	873,758	173,140	1,046,898
Operation of Non-Instructional Services:			
Food Service Operations	0	1,575,948	1,575,948
Community Services	38,035	1,181,584	1,219,619
Extracurricular Activities	784,191	184,022	968,213
Capital Outlay	0	518,935	518,935
Debt Service:			
Principal Retirement	0	515,000	515,000
Interest and Fiscal Charges	0	612,086	612,086
Issuance Costs	0	147,571	147,571
<i>Total Expenditures</i>	<u>49,152,871</u>	<u>7,553,984</u>	<u>56,706,855</u>
<i>Excess of Revenues Over Expenditures</i>	<u>116,516</u>	<u>465,810</u>	<u>582,326</u>
Other Financing Sources (Uses)			
Refunding Bonds Issued	0	9,389,995	9,389,995
Premium on Refunding Bonds Issued	0	363,507	363,507
Payment to Refunded Bond Escrow Agent	0	(9,605,931)	(9,605,931)
Transfers In	0	543,000	543,000
Transfers Out	(543,000)	0	(543,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(543,000)</u>	<u>690,571</u>	<u>147,571</u>
<i>Net Change in Fund Balance</i>	(426,484)	1,156,381	729,897
<i>Fund Balances Beginning of Year</i> <i>(Restated, See Note 3)</i>	<u>1,284,515</u>	<u>2,670,227</u>	<u>3,954,742</u>
<i>Fund Balances End of Year</i>	<u>\$ 858,031</u>	<u>\$ 3,826,608</u>	<u>\$ 4,684,639</u>

See accompanying notes and accountant's compilation report.

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

Net Change in Fund Balances - Total Governmental Funds	\$	729,897
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	894,056	
Current Year Depreciation	<u>(849,291)</u>	44,765
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes	1,000,001	
Grants	<u>619,153</u>	1,619,154
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal		9,905,000
 Refunding bonds issued in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.		
		(9,389,995)
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		51,944
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	51,539	
Loss on Refunding	(215,931)	
Bond Issuance Costs	(147,571)	
Bond Premium	<u>363,507</u>	<u>51,544</u>
 <i>Change in Net Assets of Governmental Activities</i>	 \$	 <u><u>3,012,309</u></u>

See accompanying notes and accountant's compilation report.

South Euclid-Lyndhurst City School District
Cuyahoga County
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 41,429,187	\$ 36,072,574	\$ 36,202,923	\$ 130,349
Intergovernmental	8,201,154	12,257,978	12,257,978	0
Investment Income	307,567	459,710	459,710	0
Tuition and Fees	686,581	1,026,152	1,026,208	56
Extracurricular Activities	56,827	82,177	84,937	2,760
Rentals	265,530	670,563	396,879	(273,684)
Charges for Services	57,877	0	86,507	86,507
Contributions and Donations	468	0	700	700
Payments in Lieu of Taxes	13,381	20,000	20,000	0
Miscellaneous	223,606	126,725	334,216	207,491
<i>Total Revenues</i>	<u>51,242,178</u>	<u>50,715,879</u>	<u>50,870,058</u>	<u>154,179</u>
Expenditures				
Current:				
Instruction:				
Regular	21,268,992	21,022,650	20,906,569	116,081
Special	5,747,780	6,034,129	5,814,785	219,344
Vocational	1,247,046	1,398,069	1,364,240	33,829
Other	847,000	997,000	987,059	9,941
Support Services				
Pupils	2,901,153	2,933,069	2,911,166	21,903
Instructional Staff	1,366,291	1,391,725	1,122,389	269,336
Board of Education	163,554	515,180	264,555	250,625
Administration	3,501,286	3,522,732	3,453,516	69,216
Fiscal	1,283,913	1,338,913	1,303,878	35,035
Business	307,157	328,157	306,298	21,859
Operation and Maintenance of Plant	6,907,936	6,947,936	6,786,593	161,343
Pupil Transportation	2,857,367	2,967,367	2,935,876	31,491
Central	1,114,024	993,024	961,225	31,799
Operation of Non-Instructional Services	21,296	64,125	58,102	6,023
Extracurricular Activities	800,560	816,474	776,584	39,890
<i>Total Expenditures</i>	<u>50,335,355</u>	<u>51,270,550</u>	<u>49,952,835</u>	<u>1,317,715</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>906,823</u>	<u>(554,671)</u>	<u>917,223</u>	<u>1,471,894</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	6,467	6,467	1,532	(4,935)
Refund of Prior Year Expenditures	30,389	30,389	30,389	0
Advances In	3,900	3,900	3,900	0
Advances Out	(5,000)	(10,000)	(9,300)	700
Transfers Out	(540,000)	(543,000)	(543,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(504,244)</u>	<u>(512,244)</u>	<u>(516,479)</u>	<u>(4,235)</u>
<i>Net Change in Fund Balance</i>	402,579	(1,066,915)	400,744	1,467,659
<i>Fund Balance Beginning of Year</i>	935,988	935,988	935,988	0
Prior Year Encumbrances Appropriated	615,042	615,042	615,042	0
<i>Fund Balance End of Year</i>	<u>\$ 1,953,609</u>	<u>\$ 484,115</u>	<u>\$ 1,951,774</u>	<u>\$ 1,467,659</u>

See accompanying notes and accountant's compilation report.

South Euclid-Lyndhurst City School District
Cuyahoga County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 661,039</u>
Liabilities	
Accounts Payable	\$ 39,901
Undistributed Monies	535,096
Due to Students	<u>86,042</u>
<i>Total Liabilities</i>	<u>\$ 661,039</u>

See accompanying notes and accountant's compilation report.

South Euclid-Lyndhurst City School District

Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

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

The School District is governed by a locally-elected five-member Board of Education (Board) and provides educational services as mandated by state and/or federal agencies. This Board controls the School District’s instructional/support facilities which are staffed by 251 classified and 361 certificated personnel who provide services to 4,593 students and other community members.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District, which includes general operations, food service, and student related activities of the School District.

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

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

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

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

The School District is associated with two jointly governed organizations, one joint venture, and one insurance purchasing pool. These organizations are discussed in Note 10, Note 17, and Note 18 to the basic financial statements. These organizations are:

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 1 – Nature of Basic Operations and Description of the Entity (Continued)

Jointly Governed Organizations:

Lakeshore Northeast Ohio Computer Association (LNOCA)
Ohio Schools Council

Joint Venture:

South Euclid-Lyndhurst Recreation Commission (SELREC)

Insurance Purchasing Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

B. Fund Accounting

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

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

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

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenditures) in total net assets.

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

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. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

The 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.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Budgetary Data

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006.

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

F. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to STAROhio (the State Treasurer's Investment Pool).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$480,607, which includes \$335,510 assigned from other School District funds.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories consist of expendable supplies held for consumption and donated and purchased food held for resale.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include amounts required by statute to create a reserve for budget stabilization. See Note 22 for additional information regarding set asides.

J. Capital Assets

The District's only capital assets are general capital assets. 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.

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

All reported capital assets except land 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:

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Description	Governmental Activities Estimated Lives
Buildings and Improvements	10 - 40 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	13 Years

K. Interfund Balances

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

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employee will be paid.

M. Accrued Liabilities and Long-Term Obligations

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

N. Net Assets

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

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

O. Fund Balance Reserves

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

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

P. Interfund Activity

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

Q. 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 2006.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

R. Estimates

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

S. Changes in Accounting Principles

For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation," and Statement No. 47, "Accounting for Termination Benefits."

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At June 30, 2006, none of the School District's net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitations as to the period of time during which the benefits are offered.

The implementation of these GASB statements did not have an effect on the financial statements of the School District.

Note 3 – Restatement of Fund Balance/Net Assets

Fund balances were restated to include the liability for two months of insurance premiums payable for the year ending June 30, 2005. Prepaid items were restated to include one month of prepaid insurance premiums.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 3 – Restatement of Fund Balance/Net Assets (Continued)

Fund balances have been restated as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
<u>Balance Sheet - Governmental Funds</u>			
Fund Balance June 30, 2005	\$ 1,730,529	\$ 2,683,362	\$ 4,413,891
Increase in liability for accrued benefits	(892,028)	(26,271)	(918,299)
Increase in prepaid items	<u>446,014</u>	<u>13,136</u>	<u>459,150</u>
Restated Fund Balance July 1, 2005	<u><u>\$ 1,284,515</u></u>	<u><u>\$ 2,670,227</u></u>	<u><u>\$ 3,954,742</u></u>

In the fiscal year ending June 30, 2005, the School District overstated capital assets and accumulated depreciation. As a result of this, capital assets were restated to reflect a decrease of \$1,014,879 in net book value. As noted above, prepaid items were also understated as of June 30, 2005. The effect of all restatements on net assets is as follows:

	<u>Governmental Activities</u>
Previously Reported Net Assets June 30, 2005	\$ 2,724,684
Change in Value of Capital Assets:	
Cost	(1,022,061)
Accumulated Depreciation	7,182
Increase in assets/Increase in liabilities	<u>(459,149)</u>
Restated Net Assets July 1, 2005	<u><u>\$ 1,250,656</u></u>

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 4 – Fund Deficits

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

<u>Nonmajor Funds:</u>	<u>Deficit</u>
Building Fund	\$ 1,507,927
Uniform School Supplies	828
Alternate School Grant	1,152

The deficit in the Building Fund was caused by the recognition of notes payable in the fund. The deficits in the Uniform School Supplies and Alternate School Grant Funds resulted from adjustments for accrued liabilities. The General Fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 5 - Budgetary Basis of Accounting (Continued)

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

Net Change in Fund Balance

	General
GAAP Basis	\$ (426,484)
Net Adjustment for Revenue Accruals	1,632,592
Advances In	3,900
Net Adjustment for Expenditure Accruals	301,508
Advances Out	(9,300)
Adjustment for Encumbrances	(1,101,472)
Budget Basis	\$ 400,744

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 6 - Deposits and Investments (Continued)

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 6 - Deposits and Investments (Continued)

Deposits

The carrying value of the School District's deposits totaled \$(853,220) and the bank balances of the deposits totaled \$23,478. Of the bank balance \$23,478 was covered by depository insurance. The negative carry-value above represents the School District's controlled disbursements method of cash management and forecasting.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Investments

Investments are reported at fair value. As of June 30, 2006, the School District had the following investment:

	<u>Fair Value</u>	<u>Investment Maturities (in months) 0 - 6</u>
STAROhio	<u>\$ 9,845,493</u>	<u>\$ 9,845,493</u>

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Unless matched to a specific obligation or debt of the School District, the School District will not directly invest in securities maturing more than three years from the date of settlement if such securities bear interest at a fixed rate, and it will not directly invest in such securities maturing more than two years from the date of settlement if they bear interest at a variable rate.

Credit Risk: The School District's investment at June 30, 2006 in STAROhio is rated AAA by Standard & Poor's.

Concentration of Credit Risk: The School District diversifies its investments by security, type, and institution. With the exception of direct obligations of the U. S. Treasury and STAROhio, no more than 25% of the School District's total investment portfolio will be invested in a single security type or with a single financial institution. The School District's only investment at June 30, 2006 is in STAROhio.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 7 – Property Taxes

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

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Cuyahoga County Auditor reappraises real property every six years with a triennial update, which was last completed for 2003. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Cuyahoga County, real property taxes are billed semi-annually, one year in arrears. The tax rate applied to real property collected in 2005 before certain homestead and rollback reductions, which reductions are reimbursed to the School District by the State of Ohio, amounted to \$96.50 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$49.53 per \$1,000 of assessed valuation for residential and agricultural real property and \$52.06 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2006 was \$96.50 per \$1,000 of valuation.

The property valuation consisted of:

	<u>2006</u>	<u>2005</u>
Real Property		
Residential/Agricultural	\$ 689,408,590	\$ 688,719,680
Commercial/Industrial	191,369,010	89,845,870
Tangible Personal Property		
General	29,804,362	64,127,706
Public Utilities	<u>13,688,980</u>	<u>15,113,010</u>
Total	<u>\$ 924,270,942</u>	<u>\$ 857,806,266</u>

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the School District as an advance at June 30, 2006, was \$4,285,454 for all funds.

Note 8 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 9 - Capital Assets

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

	Restated Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 693,109	\$ 0	\$ 0	\$ 693,109
 <i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	16,055,910	578,402	0	16,634,312
Furniture and Equipment	4,880,156	305,780	0	5,185,936
Vehicles	2,519,302	9,874	0	2,529,176
Total Capital Assets, being depreciated	23,455,368	894,056	0	24,349,424
Less Accumulated Depreciation:				
Buildings and Improvements	(12,565,067)	(266,513)	0	(12,831,580)
Furniture and Equipment	(3,224,099)	(444,165)	0	(3,668,264)
Vehicles	(1,535,021)	(138,613)	0	(1,673,634)
Total Accumulated Depreciation	(17,324,187)	(849,291)	0	(18,173,478)
Total Capital Assets being depreciated, net	6,131,181	44,765	0	6,175,946
Governmental Activities Capital Assets, Net	\$ 6,824,290	\$ 44,765	\$ 0	\$ 6,869,055

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 9 - Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction:	
Regular	\$ 313,958
Special	4,872
Vocational	5,504
Support Services:	
Pupils	7,082
Instructional Staff	76,217
Business	10,869
Administration	27,616
Fiscal	4,632
Central	65,869
Operation and Maintenance of Plant	52,228
Pupil Transportation	143,782
Operations of Non-Instructional Services:	
Food Service Operations	13,930
Community Services	34,665
Extracurricular Activities	88,067
	88,067
	\$ 849,291

Note 10 - Risk Management

A. Property and Liability

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

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

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

The School District maintains replacement cost insurance on buildings and contents in the amount of \$118,006,600.

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 10 - Risk Management (Continued)

B. Workers' Compensation

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the Ohio School Boards Associates (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

Note 11 - Other Employee Benefits

A. Compensated Absences

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

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 11 - Other Employee Benefits (Continued)

B. Insurance Benefits

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

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

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

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

Note 12 - Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (800) 878-5853. It is also posted on the SERS website, www.ohsers.org under forms and publications.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 12 - Pension Plans (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salaries and the School District is required to contribute at an actuarially determined rate which is currently 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,300,236, \$1,299,192 and \$1,267,956, respectively; 66 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$446,546 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan members may retire after five years of service at age 60; 25 years of service at age 55; or 30 years of service regardless of age. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 12 - Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$3,059,496, \$2,824,908 and \$3,183,612, respectively; 82 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$564,114 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

C. Social Security System

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

Note 13 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS 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 on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored 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. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate; currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$218,535 during the 2006 fiscal year.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, the net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio 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. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 13 – Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. 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. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$489,338.

Net expenses for health care for the fiscal year ending June 30, 2006 were \$158,751,207. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of participants eligible to receive benefits is 59,492.

Note 14 - Long - Term Obligations

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

	Outstanding 6/30/2005	Additions	Reductions	Outstanding 6/30/2006	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1993 Bond Issue 5.21%	\$ 5,910,000	\$ 0	\$ (5,910,000)	\$ 0	\$ 0
1996 Bond Issue 5.37%	4,215,000	0	(3,995,000)	220,000	220,000
2006 Refunding School Improv.					
Serial and Term Bonds - \$8,895,000 - 4.0-5.0%	0	8,895,000	0	8,895,000	350,000
Capital Appreciation Bonds - \$494,995 - 6.155-13.656%	0	494,995	0	494,995	0
Unamortized Premium	0	363,507	0	363,507	0
Refunding Loss	0	(215,931)	0	(215,931)	0
Total General Obligation Bonds	10,125,000	9,537,571	(9,905,000)	9,757,571	570,000
Compensated Absences	1,422,794	193,639	(245,188)	1,371,245	427,600
Total Governmental Activities Long-Term Liabilities	\$ 11,547,794	\$ 9,731,210	\$ (10,150,188)	\$ 11,128,816	\$ 997,600

Outstanding general obligation bonds consist of school building construction issues.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 14 - Long - Term Obligations (Continued)

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

2006 School Improvement Advance Refunding General Obligation Bonds

On June 28, 2006, the School District issued \$9,389,995 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$7,065,000, \$1,830,000 and \$494,995, respectively. The bonds advance refunded \$5,605,000 of outstanding 1993 School Improvement General Obligation Bonds and \$3,785,000 of outstanding 1996 School Improvement General Obligation Bonds. The bonds were issued for a twenty-five year period and the 1996 bonds were issued for a twenty-three year period with final maturities at December 1, 2018.

At the date of refunding, \$9,605,931 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. As a result, \$5,605,000 of the 1993 Series Bonds and \$3,785,000 of the 1996 Series Bonds are considered to be deferred and the liability for those bonds has been removed from the financial statements. The advance refunding reduced cash flows required for debt service by \$924,384 over the next thirteen years and resulted in an economic gain of \$735,016.

The bonds were issued with a premium of \$363,507, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2006 was \$0. The issuance costs of \$147,571 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2006 was \$0.

The \$9,389,995 bond issuance consists of serial, term and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 4.0 to 5.0 percent. The term bonds mature in fiscal year 2017 and 2018 with an interest rate of 4.00 percent.

The capital appreciation bonds will mature December 1, 2009 and 2010. These bonds were purchased at a discount at the time of issuance. At maturity, all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$705,000. The fiscal year 2006 accretion amount is \$0.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 14 - Long - Term Obligations (Continued)

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

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Appreciation Bonds			Total
	Principal	Interest	Principal	Interest	Total	
2007	\$ 570,000	\$ 471,948	\$ 0	\$ 0	\$ 570,000	\$ 471,948
2008	645,000	353,550	0	0	645,000	353,550
2009	670,000	327,250	0	0	670,000	327,250
2010	295,000	307,950	325,000	75,000	620,000	382,950
2011	400,000	294,050	169,995	135,005	569,995	429,055
2012 - 2016	3,850,000	1,038,450	0	0	3,850,000	1,038,450
2017 - 2019	2,685,000	168,375	0	0	2,685,000	168,375
Total	\$ 9,115,000	\$ 2,961,573	\$ 494,995	\$ 210,005	\$ 9,609,995	\$ 3,171,578

Note 15 – Other Debt Obligations

The \$1,500,000 note payable in the Capital Projects Fund is a bond anticipation note issued on December 1, 2005 for the purpose of paying costs of installations, modifications, and remodeling of school buildings to conserve energy and acquiring school buses. The note has a stated interest rate of 3.40 percent and is due December 1, 2007.

Note 16 – Contract Obligations

As of June 30, 2006, the School District had contractual purchase commitments for a building renovation project at Charles F. Brush High School:

	Purchase Commitments	Amount Paid as of 06/30/2006	Amounts Remaining on Contract
Mid Continent Construction	\$ 127,613	\$ 0	\$ 127,613

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 17 – Jointly Governed Organizations

A. Lake Shore North-East Ohio Computer Association (LNOCA)

The Lake Shore North-East Ohio Computer Association (LNOCA) is a jointly governed organization among fourteen School Districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of the schools supports LNOCA based upon a per pupil charge dependent upon the software package utilized. The School District paid \$83,087 to LNOCA for fiscal year 2006. The LNOCA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LNOCA is governed by a Board of Directors chosen from the general membership of the LNOCA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting LNOCA, 7800 Wall Street, Valley View, Ohio 44104.

B. Ohio Schools' Council (Council)

The Ohio Schools' Council (Council) is a jointly governed organization among eighty-three school districts. This jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Governing Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006, the School District paid \$4,327 to the Council. Financial information can be obtained by contacting David A. Cottrell, the Executive Director/Treasurer of the Ohio Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

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

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

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 17 – Jointly Governed Organizations (Continued)

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

Note 18 – Joint Venture

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

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

Note 19 – Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 19 – Contingencies (Continued)

B. Litigation

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

Note 20 - Interfund Transfers

Transfers made during fiscal year 2006 were as follows:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 543,000
Nonmajor Governmental Funds:		
Food Service	135,000	0
Cosmetology Customer Service	65,000	0
Sixth Grade Camp	9,000	0
Athletics	42,000	0
Building Fund	292,000	0
Total	\$ 543,000	\$ 543,000

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

Note 21 - Interfund Balances

Interfund balances at June 30, 2006 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 6,500	\$ 0
Nonmajor Governmental Funds:		
Uniform School Supplies	0	1,500
Cosmetology Customer Service	0	1,500
590 Cash Account	0	3,500
	\$ 6,500	\$ 6,500

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. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

South Euclid-Lyndhurst City School District
Cuyahoga County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Continued)

Note 22 - Set-Asides

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

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

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

	Budget Stabilization	Capital Improvement	Textbook Instructional Materials	Total
Set-Aside Cash Balance as of June 30, 2005	\$ 534,738	\$ 0	\$ 0	\$ 534,738
Set-Aside Carryover Balance as of June 30, 2005	0	0	(959,720)	(959,720)
Current Year Set-Aside Requirement	0	694,500	694,500	1,389,000
Qualifying Disbursements	0	(2,637,593)	(1,024,000)	(3,661,593)
Total	<u>\$ 534,738</u>	<u>\$ (1,943,093)</u>	<u>\$ (1,289,220)</u>	<u>\$ (2,697,575)</u>
Set-aside balance carried forward to future fiscal years	<u>\$ 534,738</u>	<u>\$ 0</u>	<u>\$ (1,289,220)</u>	
Set-aside reserve balance as of June 30, 2006	<u>\$ 534,738</u>	<u>\$ 0</u>	<u>\$ 0</u>	

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

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**SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
School Breakfast Program	044792-05RE-2004	10.553	\$4,045	\$0	\$4,045	\$0
	044792-05PU-2005	10.553	7,176	0	7,176	0
	044792-05PU-2006	10.553	48,547	0	48,547	0
Total School Breakfast Program			59,768	0	59,768	0
National School Lunch Program	044792-LLP4-2005	10.555	112,473	0	112,473	0
	044792-LLP4-2006	10.555	292,441	0	292,441	0
Total National School Lunch Program			404,914	0	404,914	0
Total Nutrition Cluster			464,682	0	464,682	0
Food Distribution	N/A	10.550	0	43,682	0	48,265
Total U.S. Department of Agriculture			464,682	43,682	464,682	48,265
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education: Grants to States	044792-6BSF-2005	84.027	(38,310)	0	73,639	0
	044792-6BSF-2006	84.027	1,149,101	0	1,047,820	0
Total Special Education Grants to States			1,110,791	0	1,121,459	0
Special Education: Preschool Grants	044792-PGS1-2005	84.173	35,856	0	31,564	0
	044792-PGS1-2006	84.173	1,062	0	9,390	0
Total Special Education Preschool Grants			36,918	0	40,954	0
Total Special Education Cluster			1,147,709	0	1,162,413	0
Title I Grants to Local Educational Agencies	044792-C1S1-2005	84.010	(4,838)	0	125	0
	044792-C1S1-2006	84.010	178,072	0	171,508	0
Total Title I Grants to Local Education Agencies			173,234	0	171,633	0
Safe and Drug-Free Schools and Communities State Grants	044792-DRS1-2005	84.186	(1,801)	0	57	0
	044792-DRS1-2006	84.186	14,559	0	11,710	0
Total Safe and Drug-Free Schools and Communities State Grants			12,758	0	11,767	0
Innovative Education Program Strategies	044792-C2S1-2005	84.298	(2,366)	0	1,084	0
	044792-C2S1-2006	84.298	5,993	0	4,118	0
Total Innovative Education Program Strategies			3,627	0	5,202	0
Education Technology State Grants	044792-TJS1-2005	84.318	(866)	0	0	0
	044792-TJS1-2006	84.318	1,188	0	1,655	0
Total Education Technology State Grants			322	0	1,655	0
Advanced Placement Program	044792-AVTF-2004	84.330	416	0	416	0
English Language Acquisition Grants	044792-T3S1-2006	84.365	2,526	0	1,334	0
Improving Teacher Quality State Grants	044792-TRS1-2005	84.367	(1,799)	0	1,300	0
	044792-TRS1-2006	84.367	67,386	0	67,533	0
Total Improving Teacher Quality State Grants			65,587	0	68,833	0
Hurricane Relief	044792-HR01-2006	84.938	9,900	0	0	0
Total U.S. Department of Education			1,416,079	0	1,423,253	0
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medicaid Assistance Program	N/A	93.778	89,083	0	89,083	0
State Children's Health Insurance Program	N/A	93.767	5,547	0	5,547	0
Total U.S. Department of Health and Human Services			94,630	0	94,630	0
Total Federal Assistance			\$1,975,391	\$43,682	\$1,982,565	\$48,265

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

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

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE C – NATIONAL SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAMS

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 – CARRYOVER FUNDS

Negative receipts are shown in the Special Education Cluster, CFDA # 84.027; Title I, CFDA # 84.010; Safe and Drug Free, CFDA # 84.186; Innovative Education Program Strategies CFDA # 84.298; Education Technology CFDA # 84.318 and Improving Teacher Quality, CFDA # 84.367. These negative receipts represent monies on the Final Expenditure Report that were unspent after the initial period of availability. These monies were in accordance with allowable carryover provisions and added to the following fiscal year award amounts.

CFDA - Catalog of Federal Domestic Assistance



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*

South Euclid-Lyndhurst City School District
Cuyahoga County
5044 Mayfield Road
Lyndhurst, Ohio 44124

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 11, 2007, wherein we noted the District restated their General Fund July 1, 2005 fund balance due to an understatement of accrued benefits liabilities and prepaid items and restated their July 1, 2005 net assets due to an overstatement of capital assets and understatement of prepaid items. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 11, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 11, 2007, we reported another matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

South Euclid-Lyndhurst City School District
Cuyahoga County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

May 11, 2007



Mary Taylor, CPA

Auditor of State

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

South Euclid-Lyndhurst City School District
Cuyahoga County
5044 Mayfield Road
Lyndhurst, Ohio 44124

To the Board of Education:

Compliance

We have audited the compliance of the South Euclid-Lyndhurst 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 its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. 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 South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

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

Mary Taylor, CPA
Auditor of State

May 11, 2007

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED JUNE 30, 2006**

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)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness 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: CFDA# 84.027 – Special Education Grants to States CFDA# 84.173 – Special Education Preschool Grants
<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?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 3, 2007**