



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

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



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, each major fund, and the aggregate remaining fund information of South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

April 11, 2008

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The 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, 2007. 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 2007 are as follows:

- For governmental activities, net assets increased \$5,976,895. This is a 140.2 percent increase from fiscal year 2006.
- For governmental activities, total revenues increased to \$65,543,885 from \$58,908,335 in fiscal year 2007. This was an increase of \$6,635,550, or 11.2 percent.
- Total program expenses were \$59,566,990. Total program expenses increased from \$55,896,026 in fiscal year 2006. This is an increase of \$3,670,964, or 6.6 percent.
- The School District had \$59,566,990 in expenses related to governmental activities; only \$7,730,062 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$57,813,823 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 South Euclid-Lyndhurst City 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 non-major funds presented in total in one column. In the case of the South Euclid-Lyndhurst City School District, the general fund and the permanent improvement fund are by far the most significant funds.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the 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 2007?" 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, such as food service operations and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the permanent improvement 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, 2007
(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 2007 compared to 2006:

(Table 1)
Net Assets as of June 30,

	Governmental Activities	
	2007	2006
Assets		
Current and Other Assets	\$ 66,648,538	\$ 55,245,963
Capital Assets	8,579,989	6,869,055
<i>Total Assets</i>	<i>75,228,527</i>	<i>62,115,018</i>
Liabilities		
Current and Other Liabilities	42,957,571	46,723,237
Long-term Liabilities:		
Due Within One Year	2,442,103	997,600
Due in More than One Year	19,588,993	10,131,216
<i>Total Liabilities</i>	<i>64,988,667</i>	<i>57,852,053</i>
Net Assets		
Invested in Capital		
Assets, Net of Debt	(3,099,401)	(2,377,438)
Restricted	7,887,098	4,066,032
Unrestricted	5,452,163	2,574,371
<i>Total Net Assets</i>	<i>\$ 10,239,860</i>	<i>\$ 4,262,965</i>

Total net assets increased by \$5,976,895. Total assets increased by \$13,113,508 which was primarily due to increases in cash and capital assets. The District received debt proceeds in April 2007 which were spent in the subsequent fiscal year.

Total liabilities increased \$7,136,614. This increase reflects new debt being issued for the purpose of renovation, improvement and financing of permanent improvements to school buildings and sites for school purposes.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Table 2 shows the changes in net assets for fiscal years 2007 and 2006. 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.

(Table 2)
Changes in Net Assets

	Governmental Activities	
	2007	2006
Revenues:		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 2,579,435	\$ 3,201,007
Operating Grants and Contributions	4,898,524	4,465,322
Capital Grants and Contributions	252,103	309,775
Total Program Revenues	7,730,062	7,976,104
<i>General Revenues:</i>		
Property Taxes	44,052,275	38,684,358
Grants and Entitlements	12,121,012	11,156,136
Investment Earnings	879,314	492,783
Miscellaneous	761,222	598,954
Total General Revenues	57,813,823	50,932,231
Total Revenues	65,543,885	58,908,335
Expenses:		
<i>Instruction:</i>		
Regular	22,457,133	21,352,953
Special	7,119,305	6,549,464
Vocational	1,659,329	1,409,145
Other	1,145,104	987,059
<i>Support Services:</i>		
Pupils	3,489,899	3,334,575
Instructional Staff	1,468,774	1,351,218
Board of Education	197,284	263,949
Administration	3,735,985	3,585,133
Fiscal	1,459,208	1,320,223
Business	310,079	296,432
Operations and Maintenance of Plant	7,542,191	7,101,430
Pupil Transportation	3,391,167	3,003,309
Central	1,216,558	1,087,937
<i>Operation of Non-Instructional Services</i>		
Food Service Operation	1,567,985	1,598,960
Community Services	1,151,298	1,189,292
Extracurricular Activities	1,131,755	904,805
Interest and Fiscal Charges	523,936	560,142
Total Expenses	59,566,990	55,896,026
Change in Net Assets	5,976,895	3,012,309
Net Assets Beginning of Year	4,262,965	1,250,656
Net Assets End of Year	\$ 10,239,860	\$ 4,262,965

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Governmental Activities

While program revenues decreased for governmental activities from \$7,976,104 in fiscal year 2006 to \$7,730,062 in fiscal year 2007, the vast majority of revenues supporting governmental activities are general revenues. General revenues increased from \$50,932,231 in fiscal year 2006 to \$57,813,823 in fiscal year 2007. General revenues comprised 88.2 percent of revenues supporting governmental activities. The primary source for the increase was property taxes, which showed an increase from fiscal year 2006 to fiscal year 2007 of \$5,367,917, which was due to the increase in actual tax revenues and the amounts available for advances.

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 67.2 percent of revenue for governmental activities for the South Euclid-Lyndhurst City School District in fiscal year 2007.

Program expenses increased from \$55,896,026 in fiscal year 2006 to \$59,566,990 in fiscal year 2007, a 6.6 percent increase. The School District's largest program expense is instructional services, which increased by approximately 6.9 percent from fiscal year 2006 to 2007. These expenses comprised 54.4 percent of the School District's total expenses. When combined with pupil and instructional support, these categories make up 62.7 percent of expenses.

Total governmental expenses of \$59,566,990 were mostly offset by program revenues of \$7,730,062, general revenues of \$57,813,823 and prior year cash balances. Program revenues made up 11.8 percent of total governmental revenue. The net assets of the School District's governmental activities increased by \$5,976,895.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(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 2007	Total Cost of Service 2006	Net Cost of Service 2007	Net Cost of Service 2006
Instruction	\$ 32,380,871	\$ 30,298,621	\$ (28,326,200)	\$ (26,122,656)
Support Services:				
Pupil and Instructional Staff	4,958,673	4,685,793	(4,284,150)	(4,189,438)
Board of Education, Administration, Business and Fiscal	5,702,556	5,465,737	(5,664,104)	(5,465,737)
Operation and Maintenance of Plant	7,542,191	7,101,430	(7,538,591)	(7,101,430)
Pupil Transportation	3,391,167	3,003,309	(3,364,847)	(2,934,562)
Central	1,216,558	1,087,937	(1,170,959)	(1,045,201)
Operation of Non-Instructional Services:				
Community Services	1,567,985	1,189,292	85,226	322,663
Food Service Operations	1,151,298	1,598,960	(128,554)	(112,074)
Extracurricular Activities	1,131,755	904,805	(920,813)	(711,345)
Interest and Fiscal Charges	523,936	560,142	(523,936)	(560,142)
Total Expenses	<u>\$ 59,566,990</u>	<u>\$ 55,896,026</u>	<u>\$ (51,836,928)</u>	<u>\$ (47,919,922)</u>

The dependence upon general tax revenues for governmental activities is apparent. Eighty seven 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 South Euclid-Lyndhurst City School District's students.

The School District's Funds

Information on the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$63,435,540, exclusive of Other Financing Sources and expenditures of \$62,040,237, exclusive of Other Financing Uses. The net change in fund balance for the year was most significant in the permanent improvement fund, where the fund balance increased by \$9,240,177 for fiscal year 2007.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(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 2007, 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 \$53,532,219 was lower than the original budget estimate of \$54,879,700 by \$1,347,481.

For the general fund, final budget basis expenditures (exclusive of other financing uses) were \$1,005,395 over the original budget estimate of \$53,665,625. This increase was largely due to final estimated expenditures being slightly more than the original estimates.

Total actual expenditures on the budget basis were \$54,516,966, \$85,904 under actual revenues. This is largely attributable to the fact that the School District transferred \$1,311,034 to other funds for various purposes.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had \$8,579,989 invested in land, buildings and improvements, furniture and equipment, vehicles and construction in progress. See Note 8 for additional details. Table 4 shows fiscal year 2007 balances compared with 2006.

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

	2007	2006
Land	\$ 693,109	\$ 693,109
Buildings and Improvements	3,649,363	3,802,732
Furniture and Equipment	2,106,677	1,517,672
Vehicles	741,450	855,542
Construction in Progress	1,389,390	0
Totals	\$ 8,579,989	\$ 6,869,055

All capital assets, except land and construction in progress, are reported net of depreciation. The primary source of the increase in capital assets is current year additions exceeding annual depreciation.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Senate Bill 345 requires school districts to set aside 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 20). For fiscal year 2007, this amounted to \$703,322 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, 2007, the District had \$20,427,815 in bonds outstanding with \$1,895,000 due within one year. See Note 13 for additional details. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	2007	2006
General Obligation Bonds		
Tax Anticipation Note - 2007	\$ 9,950,000	\$ 0
Bond Anticipation Notes - 2007	1,250,000	0
School Improvement Bonds - 1996	0	220,000
School Improvement Refunding Bonds - 2006	9,227,815	9,537,571
<i>Total General Obligation Bonds</i>	\$ 20,427,815	\$ 9,757,571

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.

On April 19, 2007, the School District issued \$9,950,000 in tax anticipation notes in order to finance new construction. The notes were issued for an eleven year period and have a final maturity date of December 1, 2017.

On November 30, 2006, the School District issued \$1,250,000 in bond anticipation notes for the purpose of updating school buildings to conserve energy. The notes will be renewed on November 30, 2007 at a stated interest rate of 3.40 percent.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Current Issues

As the preceding information shows, the School District heavily depends on its property taxpayers. The School District suffered two levy failures in 2004 and was successful in May 2005 where by the voters passed a 6.7 mill levy. The School District has had a history of asking voters for additional operating revenue every 2 to 3 years. Although the School District ended fiscal year 2007 with a cash balance of about \$4.1 million, an operating levy in calendar year 2008 is expected in order to erase an anticipated negative ending cash balance for fiscal year 2009.

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.

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

Statement of Net Assets

June 30, 2007

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 20,078,579
Receivables:	
Taxes	44,840,524
Accounts	19,661
Intergovernmental	922,490
Prepaid Items	500,037
Inventory Held For Resale	13,765
Deferred Charges	273,482
Nondepreciable Capital Assets	2,082,499
Depreciable Capital Assets (Net)	6,497,490
<i>Total Assets</i>	75,228,527
Liabilities	
Accounts Payable	774,142
Contracts Payable	309,508
Accrued Wages and Benefits	4,501,963
Matured Compensated Absences Payable	380,656
Accrued Interest Payable	104,605
Intergovernmental Payable	2,186,985
Deferred Revenue	34,699,712
Long Term Liabilities:	
Due Within One Year	2,442,103
Due In More Than One Year	19,588,993
<i>Total Liabilities</i>	64,988,667
Net Assets	
Invested in Capital Assets, Net of Related Debt	(3,099,401)
Restricted for:	
Capital Outlay	4,299,919
Debt Service	1,532,625
Budget Stabilization	534,738
Other Purposes	1,519,816
Unrestricted	5,452,163
<i>Total Net Assets</i>	\$ 10,239,860

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District

Statement of Activities

For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 22,457,133	\$ 759,086	\$ 624,422	\$ 225,783	\$ (20,847,842)
Special	7,119,305	128,430	1,912,747	0	(5,078,128)
Vocational	1,659,329	319,143	85,060	0	(1,255,126)
Other	1,145,104	0	0	0	(1,145,104)
Support Services:					
Pupils	3,489,899	0	555,871	0	(2,934,028)
Instructional Staff	1,468,774	0	118,652	0	(1,350,122)
Board of Education	197,284	0	0	0	(197,284)
Administration	3,735,985	0	38,452	0	(3,697,533)
Fiscal	1,459,208	0	0	0	(1,459,208)
Business	310,079	0	0	0	(310,079)
Operation and Maintenance of Plant	7,542,191	3,600	0	0	(7,538,591)
Pupil Transportation	3,391,167	0	0	26,320	(3,364,847)
Central	1,216,558	0	45,599	0	(1,170,959)
Operation of Non-Instructional Services:					
Food Service Operations	1,567,985	917,658	521,773	0	(128,554)
Community Services	1,151,298	240,876	995,648	0	85,226
Extracurricular Activities	1,131,755	210,642	300	0	(920,813)
Interest and Fiscal Charges	523,936	0	0	0	(523,936)
Total Governmental Activities	\$ 59,566,990	\$ 2,579,435	\$ 4,898,524	\$ 252,103	(51,836,928)

General Revenues

Property Taxes Levied for:

General Purposes	40,874,945
Debt Service	1,159,859
Capital Outlay	2,017,471
Grants and Entitlements not Restricted to Specific Programs	12,121,012
Investment Earnings	879,314
Payments in Lieu of Taxes	84,645
Miscellaneous	676,577

Total General Revenues 57,813,823

Change in Net Assets 5,976,895

Net Assets Beginning of Year 4,262,965

Net Assets End of Year \$ 10,239,860

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District

Balance Sheet

Governmental Funds

June 30, 2007

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,875,958	\$ 12,755,438	\$ 2,912,445	\$ 19,543,841
Restricted Assets:				
Cash and Cash Equivalents	534,738	0	0	534,738
Receivables:				
Taxes	41,661,732	2,062,029	1,116,763	44,840,524
Accounts	7,505	0	12,156	19,661
Interfund	3,800	0	0	3,800
Intergovernmental	620,372	0	302,118	922,490
Inventory Held For Resale	0	0	13,765	13,765
Prepaid Items	466,826	0	33,211	500,037
<i>Total Assets</i>	<u>\$ 47,170,931</u>	<u>\$ 14,817,467</u>	<u>\$ 4,390,458</u>	<u>\$ 66,378,856</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 450,605	\$ 271,997	\$ 51,540	\$ 774,142
Contracts Payable	0	309,508	0	309,508
Accrued Wages and Benefits	4,418,002	0	83,961	4,501,963
Matured Compensated Absences Payable	380,656	0	0	380,656
Interfund Payable	0	0	3,800	3,800
Intergovernmental Payable	2,144,298	0	42,687	2,186,985
Deferred Revenue	37,422,034	1,817,350	1,280,361	40,519,745
<i>Total Liabilities</i>	<u>44,815,595</u>	<u>2,398,855</u>	<u>1,462,349</u>	<u>48,676,799</u>
Fund Balances				
Reserved for Encumbrances	900,680	510,616	268,245	1,679,541
Reserved for Property Taxes	4,794,868	244,679	138,198	5,177,745
Reserved for Budget Stabilization	534,738	0	0	534,738
Unreserved:				
Undesignated, Reported in:				
General Fund	(3,874,950)	0	0	(3,874,950)
Special Revenue Funds	0	0	1,172,785	1,172,785
Debt Service Fund	0	0	1,336,864	1,336,864
Capital Projects Funds	0	11,663,317	12,017	11,675,334
<i>Total Fund Balances</i>	<u>2,355,336</u>	<u>12,418,612</u>	<u>2,928,109</u>	<u>17,702,057</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 47,170,931</u>	<u>\$ 14,817,467</u>	<u>\$ 4,390,458</u>	<u>\$ 66,378,856</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total Governmental Fund Balances		\$ 17,702,057
 <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.		8,579,989
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	\$ 4,963,067	
Intergovernmental	<u>856,966</u>	
Total		5,820,033
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditures are reported when bonds are issued.		273,482
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(104,605)
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.		199,321
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	(8,545,000)	
Bond Anticipation Note	(1,250,000)	
Capital Appreciation Bonds	(494,995)	
Accretion on Capital Appreciation Bonds	(51,596)	
Tax Anticipation Note	(9,950,000)	
Unamortized Premium	(751,264)	
Compensated Absences	<u>(1,187,562)</u>	
Total		<u>(22,230,417)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$ 10,239,860</u></u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2007

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 39,152,814	\$ 1,920,691	\$ 1,107,176	\$ 42,180,681
Intergovernmental	12,354,320	225,783	3,980,981	16,561,084
Investment Income	771,503	94,795	13,016	879,314
Tuition and Fees	1,326,872	0	147,768	1,474,640
Extracurricular Activities	80,257	0	130,385	210,642
Rentals	240,876	0	3,600	244,476
Charges for Services	90,934	0	964,115	1,055,049
Contributions and Donations	0	0	68,432	68,432
Payments in Lieu of Taxes	84,645	0	0	84,645
Miscellaneous	462,077	0	214,500	676,577
<i>Total Revenues</i>	<u>54,564,298</u>	<u>2,241,269</u>	<u>6,629,973</u>	<u>63,435,540</u>
Expenditures				
Current:				
Instruction:				
Regular	21,632,198	65,821	731,375	22,429,394
Special	6,400,113	0	825,927	7,226,040
Vocational	1,596,838	0	71,650	1,668,488
Other	1,145,104	0	0	1,145,104
Support Services:				
Pupils	3,062,593	0	403,857	3,466,450
Instructional Staff	1,202,576	39,352	191,188	1,433,116
Board of Education	197,152	0	132	197,284
Administration	3,547,957	0	133,480	3,681,437
Fiscal	1,451,421	0	201	1,451,622
Business	309,850	0	0	309,850
Operation and Maintenance of Plant	6,925,349	630,203	7,945	7,563,497
Pupil Transportation	3,196,073	70,668	2,500	3,269,241
Central	1,077,635	634,255	77,863	1,789,753
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,559,193	1,559,193
Community Services	58,860	17,125	1,122,849	1,198,834
Extracurricular Activities	880,574	1,595	174,126	1,056,295
Capital Outlay	0	1,492,073	0	1,492,073
Debt Service:				
Principal Retirement	0	0	570,000	570,000
Interest and Fiscal Charges	0	0	393,191	393,191
Issuance Costs	0	0	139,375	139,375
<i>Total Expenditures</i>	<u>52,684,293</u>	<u>2,951,092</u>	<u>6,404,852</u>	<u>62,040,237</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,880,005</u>	<u>(709,823)</u>	<u>225,121</u>	<u>1,395,303</u>
Other Financing Sources (Uses)				
Tax Anticipation Notes Issued	0	9,950,000	0	9,950,000
Bond Anticipation Notes Issued	0	0	1,250,000	1,250,000
Premium on Tax Anticipation Note	0	0	422,115	422,115
Transfers In	0	0	382,700	382,700
Transfers Out	(382,700)	0	0	(382,700)
<i>Total Other Financing Sources (Uses)</i>	<u>(382,700)</u>	<u>9,950,000</u>	<u>2,054,815</u>	<u>11,622,115</u>
<i>Net Change in Fund Balance</i>	1,497,305	9,240,177	2,279,936	13,017,418
<i>Fund Balances Beginning of Year</i>	858,031	3,178,435	648,173	4,684,639
<i>Fund Balances End of Year</i>	<u>\$ 2,355,336</u>	<u>\$ 12,418,612</u>	<u>\$ 2,928,109</u>	<u>\$ 17,702,057</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds \$ 13,017,418

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

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

Capital Asset Additions	\$ 2,789,445	
Current Year Depreciation	<u>(1,078,511)</u>	1,710,934

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

Delinquent Property Taxes	1,871,594	
Grants	<u>236,751</u>	2,108,345

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		570,000
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Bonds and notes issued in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.

(11,200,000)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The governmental funds report the effects of premiums and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Accrued Interest	(83,433)	
Bond Premium	(422,115)	
Bond Issuance Costs	<u>139,375</u>	(366,173)

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	183,683	
Capital Appreciation Bond Accretion	(51,596)	
Loss on Refunding Amortization	(16,610)	
Debt Issuance Costs Amortization	(13,464)	
Debt Premium Amortization	<u>34,358</u>	<u>136,371</u>

Change in Net Assets of Governmental Activities

\$ 5,976,895

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
 General Fund
 For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 39,821,500	\$ 38,271,500	\$ 38,341,842	\$ 70,342
Intergovernmental	12,571,700	12,282,700	12,289,118	6,418
Investment Income	600,000	757,551	757,551	0
Tuition and Fees	1,061,500	1,322,500	1,325,236	2,736
Extracurricular Activities	75,000	79,704	80,257	553
Rentals	260,000	230,000	240,876	10,876
Charges for Services	87,000	87,000	90,934	3,934
Contributions and Donations	0	0	0	0
Payments in Lieu of Taxes	20,000	84,645	84,645	0
Miscellaneous	383,000	416,619	433,360	16,741
<i>Total Revenues</i>	<u>54,879,700</u>	<u>53,532,219</u>	<u>53,643,819</u>	<u>111,600</u>
Expenditures				
Current:				
Instruction:				
Regular	22,414,414	22,125,397	21,773,020	352,377
Special	6,162,667	6,477,787	6,322,623	155,164
Vocational	1,439,862	1,625,862	1,578,659	47,203
Other	930,000	1,180,000	1,145,224	34,776
Support Services				
Pupils	3,063,213	3,053,213	3,031,583	21,630
Instructional Staff	1,510,674	1,447,166	1,247,093	200,073
Board of Education	438,873	462,873	228,062	234,811
Administration	3,707,093	3,631,534	3,553,801	77,733
Fiscal	1,319,433	1,524,312	1,477,636	46,676
Business	323,960	361,060	316,888	44,172
Operation and Maintenance of Plant	7,260,562	7,302,662	7,167,430	135,232
Pupil Transportation	3,071,594	3,322,594	3,266,302	56,292
Central	1,100,103	1,206,583	1,166,789	39,794
Operation of Non-Instructional Services	63,500	63,800	58,860	4,940
Extracurricular Activities	859,677	886,177	867,662	18,515
<i>Total Expenditures</i>	<u>53,665,625</u>	<u>54,671,020</u>	<u>53,201,632</u>	<u>1,469,388</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,214,075</u>	<u>(1,138,801)</u>	<u>442,187</u>	<u>1,580,988</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	0	3,079	327	(2,752)
Refund of Prior Year Expenditures	0	24,500	25,390	890
Advances In	9,300	9,300	9,300	0
Advances Out	(5,000)	(5,000)	(4,300)	700
Transfers Out	(550,000)	(500,034)	(382,700)	117,334
<i>Total Other Financing Sources (Uses)</i>	<u>(545,700)</u>	<u>(468,155)</u>	<u>(351,983)</u>	<u>116,172</u>
<i>Net Change in Fund Balance</i>	668,375	(1,606,956)	90,204	1,697,160
<i>Fund Balance Beginning of Year</i>	1,951,774	1,951,774	1,951,774	0
Prior Year Encumbrances Appropriated	1,101,472	1,101,472	1,101,472	0
<i>Fund Balance End of Year</i>	<u>\$ 3,721,621</u>	<u>\$ 1,446,290</u>	<u>\$ 3,143,450</u>	<u>\$ 1,697,160</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 613,699</u>
Liabilities	
Accounts Payable	\$ 10,962
Undistributed Monies	518,401
Due to Students	<u>84,336</u>
<i>Total Liabilities</i>	<u>\$ 613,699</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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 259 classified and 371 certificated personnel who provide services to 4,513 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 9, Note 15, and Note 16 to the basic financial statements. These organizations are:

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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 are the School District's major governmental funds:

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.

Permanent Improvement Fund The permanent improvement fund accounts for all transactions related to acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5707 of the Ohio Revised Code.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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 increase (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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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, 2007, but which were levied to finance fiscal year 2008 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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the 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 2007.

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, including proprietary 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 2007, 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, 2007.

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

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 2007 amounted to \$771,503, which includes \$583,600 assigned from other School District funds.

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, 2007, 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 20 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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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. At June 30, 2007, none of the District's net assets were restricted by enabling legislation. 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 2007.

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

Note 3 – Accountability and Compliance

A. Fund Deficits

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

Nonmajor Funds:	Deficit
Food Service	\$ 11,775
Uniform School Supplies	2,033
Alternate School Grant	1,152

The deficits in the Food Service, 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 transfers when cash is required, not when accruals occur.

B. Compliance

Contrary to Ohio Revised Code Section 5705.39, the District had several funds in which total appropriations exceeded estimated resources.

Funds	Total Estimated Resources	Total Appropriations	Variance
Special Revenue Funds:			
District Managed Student Activity	\$ 155,393	\$ 175,478	\$ 20,085
Auxiliary Services Program	1,132,544	1,223,192	90,648
Alternative School Grant	55,000	57,609	2,609
Poverty Based Assistance	22,305	70,305	48,000
Title VI-B	1,055,351	1,419,975	364,624
Title I	176,564	193,175	16,611
Title VI	4,276	28,593	24,317
Drug-Free Grant	14,849	16,790	1,941
Preschool Disability Grant	38,949	61,960	23,011
Title VI-R	65,023	140,945	75,922
Continuous Improvement	22,012	461,423	439,411
Debt Service Fund:			
Bond Retirement	1,999,744	2,032,171	32,427
Capital Projects Fund:			
Capital Improvement	4,979,593	5,031,954	52,361

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 3 – Accountability and Compliance (Continued)

These variances were corrected by June 30, 2007.

The District will monitor this more closely and modify their procedures to ensure compliance with the Ohio Revised Code.

Note 4 - 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).

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.

	<u>General</u>
GAAP Basis	\$ 1,497,305
Net Adjustment for Revenue Accruals	(894,762)
Advances In	9,300
Net Adjustment for Expenditure Accruals	719,324
Advances Out	(4,300)
Adjustment for Encumbrances	<u>(1,236,663)</u>
Budget Basis	<u>\$ 90,204</u>

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 5 - 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;
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,

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 5 - Deposits and Investments (Continued)

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 uninsured 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 2007, the School District and public depositories complied with the provisions of these statutes.

Deposits

The carrying value of the School District's deposits totaled \$(724,878) and the bank balances of the deposits totaled \$14,315. The entire bank balance was covered by depository insurance. The negative carrying-value above represents the School District's controlled disbursements method of cash management and forecasting.

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 uninsured 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, 2007, the School District had the following investments:

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 5 - Deposits and Investments (Continued)

	Fair Value	Investment Maturities (in months) 0 - 6
STAROhio	<u>\$ 21,417,156</u>	<u>\$ 21,417,156</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 investments at June 30, 2007 in STAROhio are 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, 2007 is STAROhio.

Note 6 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 6 – Property Taxes (Continued)

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

The District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007 was \$4,794,868 in the general fund, \$244,679 in the permanent improvement capital projects fund, and \$138,198 in the bond retirement debt service fund. The amount available as an advance at June 30, 2006, was \$3,983,896 in the general fund, \$190,959 in the permanent improvement capital projects fund, and \$110,599 in the bond retirement debt service fund.

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 6 – Property Taxes (Continued)

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

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural	\$ 689,408,590	75%	\$ 758,685,310	77%
Commercial/Industrial	191,369,010	21%	201,103,660	20%
Tangible Personal Property	29,804,362	3%	20,014,566	2%
Personal Public Utilities	13,688,980	1%	13,411,100	1%
Total Assessed Value	<u>\$ 924,270,942</u>	<u>100%</u>	<u>\$ 993,214,636</u>	<u>100%</u>
Tax rate per \$1,000 of assessed value	<u>\$ 49.53</u>		<u>\$ 45.33</u>	

Note 7 - Receivables

Receivables at June 30, 2007, 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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 8 - Capital Assets

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

	Balance 6/30/2006	Additions	Reductions	Balance 6/30/2007
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 693,109	\$ 0	\$ 0	\$ 693,109
Construction in Progress	<u>0</u>	<u>1,389,390</u>	<u>0</u>	<u>1,389,390</u>
Capital Assets, not being depreciated:	<u>693,109</u>	<u>1,389,390</u>	<u>0</u>	<u>2,082,499</u>
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	16,634,312	308,677	(424,152)	16,518,837
Furniture and Equipment	5,185,936	1,065,566	0	6,251,502
Vehicles	<u>2,529,176</u>	<u>25,812</u>	<u>0</u>	<u>2,554,988</u>
Total Capital Assets, being depreciated	24,349,424	1,400,055	(424,152)	25,325,327
Less Accumulated Depreciation:				
Buildings and Improvements	(12,831,580)	(462,046)	424,152	(12,869,474)
Furniture and Equipment	(3,668,264)	(476,561)	0	(4,144,825)
Vehicles	<u>(1,673,634)</u>	<u>(139,904)</u>	<u>0</u>	<u>(1,813,538)</u>
Total Accumulated Depreciation	<u>(18,173,478)</u>	<u>(1,078,511)</u>	<u>424,152</u>	<u>(18,827,837)</u>
Total Capital Assets being depreciated, net	<u>6,175,946</u>	<u>321,544</u>	<u>0</u>	<u>6,497,490</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,869,055</u>	<u>\$ 1,710,934</u>	<u>\$ 0</u>	<u>\$ 8,579,989</u>

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 8 - Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	493,760
Special		9,100
Vocational		5,063
Support Services:		
Pupils		6,836
Instructional Staff		63,858
Administration		27,485
Fiscal		5,228
Business		11,255
Operation and Maintenance of Plant		51,778
Pupil Transportation		144,500
Central		116,199
Operation of Non-Instructional Services:		
Food Service Operations		12,655
Community Services		42,288
Extracurricular Activities		88,506
Total Depreciation Expense	\$	<u>1,078,511</u>

Note 9 – 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 \$2,000,000 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 \$150,000,000.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 9 - 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 Association (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 10 - 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, teachers and administrators have an unlimited number of days. Upon retirement, employees receive payment for a percentage of their total sick leave accumulation, up to a maximum number of days. Classified employees receive thirty 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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 10 - 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, \$50,000 for classified employees, and for administrators it is \$135,000.

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 the premium for an employee who has single coverage and the difference between the monthly family premium and the employee contribution for family coverage.

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 the premium for an employee who has single coverage and the difference between the monthly family premium and the employee contribution for family coverage.

Note 11 - 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 SER's website, www.ohsers.org under forms and publications.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 11 - Pension Plans (Continued)

Plan members are required to contribute 10 percent of their annual covered salaries and the School District is required to contribute at an actuarially determined rate which is currently 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. 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, 2007, 2006, and 2005 were \$1,341,864, \$1,300,236 and \$1,299,192, respectively; 48.8 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$687,624 represents the unpaid contribution for fiscal year 2007, 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 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 11 - Pension Plans (Continued)

For the fiscal year ended June 30, 2007, 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, 2007, 2006, and 2005 were \$3,249,132, \$3,059,496 and \$2,824,908, respectively; 82.9 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$554,477 represents the unpaid contribution for fiscal year 2007, and is recorded as a liability within the respective funds. Contributions made to the DC and Combined plans for fiscal year 2007 were \$24,178 made by the School District and \$75,034 made by plan members.

Note 12 - 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, 2007, 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 \$249,933 during the 2007 fiscal year.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the year ended June 30, 2007, the net health care costs paid by STRS Ohio were \$265,558,000 and STRS Ohio had 122,934 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, 2006, 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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 12 - 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, 2007, employer contributions to fund health care benefits were 3.32 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 2007, 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. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$458,691.

Net expenses for health care for the fiscal year ending June 30, 2006 (the latest information available) 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 latest information available), 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 13 - Long - Term Obligations

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

	Outstanding 6/30/2006	Additions	Reductions	Outstanding 6/30/2007	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1996 Bond Issue 5.37%	\$ 220,000	\$ 0	\$ (220,000)	\$ 0	\$ 0
2006 Refunding School Improv. Serial and Term Bonds - \$8,895,000 - 4.0-5.0%	8,895,000	0	(350,000)	8,545,000	645,000
Capital Appreciation Bonds - \$494,995 - 6.155-13.656%	494,995	0	0	494,995	0
Accretion on Capital					
Appreciation Bonds	0	51,596	0	51,596	0
Unamortized Premium	363,507	0	(27,962)	335,545	0
Refunding Loss	(215,931)	16,610	0	(199,321)	0
Total General Obligation Bonds	<u>9,757,571</u>	<u>68,206</u>	<u>(597,962)</u>	<u>9,227,815</u>	<u>645,000</u>
Tax Anticipation Note 4.00%	0	9,950,000	0	9,950,000	0
Unamortized Premium	0	422,115	(6,396)	415,719	0
Bond Anticipation Note 3.4%	0	1,250,000	0	1,250,000	1,250,000
Compensated Absences	<u>1,371,245</u>	<u>97,358</u>	<u>(281,041)</u>	<u>1,187,562</u>	<u>547,103</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 11,128,816</u>	<u>\$ 11,787,679</u>	<u>\$ (885,399)</u>	<u>\$ 22,031,096</u>	<u>\$ 2,442,103</u>

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 13 - Long - Term Obligations (Continued)

Outstanding general obligation bonds consist of school building construction issues.

General obligation bonds and tax anticipation notes 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. As of June 30, 2007, the amount of defeased debt outstanding but removed from the the financial statements amounted to \$9,039,995.

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 2007 was \$27,962. 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 2007 was \$11,352. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$215,931. This difference is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2007 was \$16,610.

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. Bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid 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 2007 accretion amount is \$51,596.

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 13 - Long - Term Obligations (Continued)

2007 Tax Anticipation Notes

On April 19, 2007, the School District issued \$9,950,000 in tax anticipation notes to finance new construction. The notes were issued for an eleven year period and have a final maturity date of December 1, 2017.

The notes were issued with a premium of \$422,115, which is reported as an increase to notes 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 2007 was \$6,396.

2007 Bond Anticipation Note

The \$1,250,000 note payable is a bond anticipation note issued on December 1, 2006 for the purpose of paying costs of installations, modifications, and remodeling of school buildings to conserve energy. The note has a stated interest rate of 3.40 percent and is due December 1, 2007.

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

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Appreciation Bonds		Tax Anticipation Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 645,000	\$ 353,550	\$ 0	\$ 0	\$ 0	\$ 501,328
2009	670,000	327,250	0	0	810,000	428,700
2010	295,000	307,950	325,000	75,000	850,000	387,200
2011	400,000	294,050	169,995	135,005	900,000	347,950
2012	725,000	271,550	0	0	930,000	311,350
2013-2017	3,980,000	861,475	0	0	6,460,000	963,075
2018-2019	1,830,000	73,800	0	0	0	0
Total	\$ 8,545,000	\$ 2,489,625	\$ 494,995	\$ 210,005	\$ 9,950,000	\$ 2,939,603

	Bond Anticipation Notes		Total	
	Principal	Interest	Principal	Interest
2008	\$ 1,250,000	\$ 42,500	\$ 1,895,000	\$ 897,378
2009	0	0	1,480,000	755,950
2010	0	0	1,470,000	770,150
2011	0	0	1,469,995	777,005
2012	0	0	1,655,000	582,900
2013-2017	0	0	10,440,000	1,824,550
2018-2019	0	0	1,830,000	73,800
Total	\$ 1,250,000	\$ 42,500	\$ 20,239,995	\$ 5,681,733

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 14 – Contract Obligations

As of June 30, 2007, the School District had contractual purchase commitments for building renovations.

	Amount Remaining On Contract
John G. Johnson Construction	\$ 3,706,806
E.B. Katz Company	2,200,000
London Road Electric	1,597,420
Rizzi Distributors, Inc.	78,150
Dial Electric	68,703
Lakeland Management Systems	3,374,308
E.M. Associates	4,481
	<hr/> <hr/> \$ 11,029,868

Note 15 – Jointly Governed Organizations

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

The Lakeshore Northeast 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 support LNOCA based upon a per pupil charge dependent upon the software package utilized. The School District paid \$80,175 to LNOCA for fiscal year 2007. 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 116 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 2007, the School District paid \$7,855 to the Council for membership and other services, \$419,292 to the Council's prepaid natural gas program and \$488,605 to the Council's prepaid electricity program. Financial information can be obtained by contacting David Cottrell, the Executive Director of the Ohio Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131 or by internet at www.OSCline.org.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 15 – Jointly Governed Organizations (Continued)

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.

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

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

The 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 16 – 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.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 16 – Joint Venture (Continued)

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 an ongoing financial responsibility because the continued existence of the joint venture depends on the School District's continued participation. SELREC is not accumulating significant financial resources or experiencing fiscal stress which would cause additional benefit or burden on the School District. During fiscal 2007, the District contributed \$41,582. The School District also has a measurable equity interest in SELREC because the joint venture agreement stipulated that the participants have a claim to assets and sets forth the method of distribution upon dissolution of the joint venture. SELREC has no capital assets. 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 17 – 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, 2007.

B. Litigation

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

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 18 - Interfund Transfers

Transfers made during fiscal year 2007 were as follows:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 382,700
Nonmajor Governmental Funds:		
Food Service	30,000	0
Sixth Grade Camp	12,000	0
Athletics	39,700	0
Building Fund	301,000	0
	\$ 382,700	\$ 382,700

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

Note 19 - Interfund Balances

Interfund balances at June 30, 2007 consisted of the following:

	Interfund Receivable	Interfund Payable
General Fund	\$ 3,800	\$ 0
Nonmajor Governmental Funds:		
Uniform School Supplies	0	2,100
Cosmetology Customer Service	0	1,700
	\$ 3,800	\$ 3,800

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, 2007 are reported on the Statement of Net Assets.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

Note 20 - 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.

	<u>Budget Stabilization</u>	<u>Capital Improvement</u>	<u>Textbook Instructional Materials</u>	<u>Total</u>
Set-Aside Cash Balance as of June 30, 2006	\$ 534,738	\$ 0	\$ 0	\$ 534,738
Set-Aside Carryover Balance as of June 30, 2006	0	0	(1,289,220)	(1,289,220)
Current Year Set-Aside Requirement	0	703,322	703,322	1,406,644
Qualifying Disbursements	<u>0</u>	<u>(3,883,105)</u>	<u>(869,785)</u>	<u>(4,752,890)</u>
 Total	 <u>\$ 534,738</u>	 <u>\$ (3,179,783)</u>	 <u>\$ (1,455,683)</u>	 <u>\$ (4,100,728)</u>
 Set-aside balance carried forward to future fiscal years	 <u>\$ 534,738</u>	 <u>\$ 0</u>	 <u>\$ (1,455,683)</u>	
 Set-aside reserve balance as of June 30, 2007	 <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.

Note 21 - Subsequent Event

On November 30, 2007, the District reissued bond anticipation notes in the amount of \$1,000,000.

**SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
School Breakfast Program	044792-05PU-2006	10.553	\$20,047	\$0	\$20,047	\$0
	044792-05PU-2007	10.553	53,292	0	53,292	0
Total School Breakfast Program			73,339	0	73,339	0
National School Lunch Program	044792-LLP1-2007	10.555	855	0	0	0
	044792-LLP4-2006	10.555	129,302	0	129,302	0
	044792-LLP4-2006	10.555	310,039	0	310,039	0
Total National School Lunch Program			440,196	0	439,341	0
Total Nutrition Cluster			513,535	0	512,680	0
Food Distribution	N/A	10.550	0	62,979	0	62,979
Total U.S. Department of Agriculture			513,535	62,979	512,680	62,979
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education: Grants to States	044792-6BSF-2006	84.027	(35,858)	0	65,424	0
	044792-6BSF-2007	84.027	1,276,116	0	1,099,805	0
Total Special Education Grants to States			1,240,258	0	1,165,229	0
Special Education: Preschool Grants	044792-PGS1-2006	84.173	(4,070)	0	222	0
	044792-PGS1-2007	84.173	58,991	0	47,772	0
Total Special Education Preschool Grants			54,921	0	47,994	0
Total Special Education Cluster			1,295,179	0	1,213,223	0
Title I Grants to Local Educational Agencies	044792-C1S1-2006	84.010	3,922	0	10,486	0
	044792-C1S1-2007	84.010	175,683	0	169,038	0
Total Title I Grants to Local Education Agencies			179,605	0	179,524	0
Safe and Drug-Free Schools and Communities State Grants	044792-DRS1-2006	84.186	244	0	3,093	0
	044792-DRS1-2006	84.186	11,010	0	4,250	0
Total Safe and Drug-Free Schools and Communities State Grants			11,254	0	7,343	0
Twenty First Century Community Learning Center	044792-TRS1-006	84.287	300,000	0	202,778	0
Innovative Education Program Strategies	044792-C2S1-2006	84.298	(681)	0	1,194	0
	044792-C2S1-2007	84.298	16,002	0	13,254	0
Total Innovative Education Program Strategies			15,321	0	14,448	0
Education Technology State Grants	044792-TJS1-2006	84.318	(796)	0	392	0
	044792-TJS1-2007	84.318	3,246	0	982	0
	044792-TJSL-2007	84.318	124,914	0	110,802	0
Total Education Technology State Grants			127,364	0	112,176	0
English Language Acquisition Grants	044792-T3S1-2006	84.365	0	0	784	0
	044792-T3S1-2007	84.365	2,894	0	555	0
Total English Language Acquisition Grants			2,894	0	1,339	0
Mathematics and Science Partnerships	N/A	84.366	72,298	0	26,237	0
Improving Teacher Quality State Grants	044792-TRS1-2006	84.367	(238)	0	0	0
	044792-TRS1-2007	84.367	118,181	0	105,457	0
Total Improving Teacher Quality State Grants			117,943	0	105,457	0
Hurricane Relief	044792-HR01-2006	84.938	3,700	0	7,600	0
Total U.S. Department of Education			2,125,558	0	1,870,125	0
Total Federal Assistance			\$2,639,093	\$62,979	\$2,382,805	\$62,979

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

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D – FEDERAL TRANSFERS

The Ohio Department of Education (ODE) transferred federal monies remaining from the 2006 grant year to the 2007 grant year for 5 separate grants. These amounts are shown as negative receipts for the 2006 grant year and positive receipts in the 2007 grant year. This action by ODE allowed the District to extend the availability period for expenditure of these receipts.



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, each major fund, and the aggregate remaining fund information of South Euclid-Lyndhurst City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

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

We also noted certain internal control matters that we reported to the District's management in a separate letter dated April 11, 2008.

Compliance and Other Matters

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

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

We also noted certain noncompliance or other matters that we reported to the District's management in a separate letter dated April 11, 2008.

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



Mary Taylor, CPA
Auditor of State

April 11, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO IT'S 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 South Euclid-Lyndhurst City School District (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, 2007. 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 complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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Internal Control Over Compliance (Continued)

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

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

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

In a separate letter to the District's management dated April 11, 2008, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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



Mary Taylor, CPA
Auditor of State

April 11, 2008

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control 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 and 84.173
<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

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

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

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

FINDING NUMBER 2007-001

Noncompliance Citation

Appropriations Exceeding Estimated Resources

Ohio Revised Code Section 5705.39 prohibits appropriations from each fund from exceeding the total estimated resources. During our testing, we noted several funds that had appropriations exceeding the estimated resources at December 31, 2006:

<u>Funds</u>	<u>Total Estimated Resources</u>	<u>Total Appropriations</u>	<u>Variance</u>
Special Revenue Funds:			
District Managed Student Activity	\$155,393	\$175,478	\$20,085
Auxiliary Services Program	1,132,544	1,223,192	90,648
Alternative School Grant	55,000	57,609	2,609
Poverty Based Assistance	22,305	70,305	48,000
Title VI-B	1,055,351	1,419,975	364,624
Title I	176,564	193,175	16,611
Title VI	4,276	28,593	24,317
Drug-Free Grant	14,849	16,790	1,941
Preschool Disability Grant	38,949	61,960	23,011
Title VI-R	65,023	140,945	75,922
Continuous Improvement	22,012	461,423	439,411
Debt Service Fund:			
Bond Retirement	1,999,744	2,032,171	32,427
Capital Projects Fund:			
Capital Improvement	4,979,593	5,031,954	52,361

These variances were corrected by June 30, 2007.

In addition, throughout the audit period it was noted that revenue and expenditure ledgers were not in agreement with the District's official amended certificate of estimated resources and current appropriations for several funds throughout the year and at year end. Failure to update the ledgers could result in spending more money than was appropriated, presenting a misleading figure as to how much money the District expects to receive, and could also potentially result in noncompliance with the Ohio Revised Code.

We recommend the District monitor appropriations and amend the certificate of estimated resources to ensure that appropriations do not exceed estimated resources and that the District update the revenue and expenditure ledgers to properly reflect the amended certificate of estimated resources each time the certificate is amended and each time the current appropriation measure is modified.

MANAGEMENT'S RESPONSE:

The District will monitor appropriations versus estimated resources and make necessary modifications.

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

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

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
MAY 20, 2008**