



**SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2006, 2005 & 2004



**Auditor of State
Betty Montgomery**

**SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

South Euclid-Lyndhurst Recreation Commission
Cuyahoga County
4843 Mayfield Road
Lyndhurst, Ohio 44124

To the Regional Council:

We have audited the accompanying financial statements of the major fund of the South Euclid-Lyndhurst Recreation Commission, Cuyahoga County, Ohio, (the SELREC) as of and for the years ended June 30, 2006, June 30, 2005, and June 30, 2004 which collectively comprise the SELREC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the SELREC'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.

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the major fund of the South Euclid-Lyndhurst Recreation Commission, Cuyahoga County, Ohio, as of June 30, 2006, June 30, 2005, and June 30, 2004, and the respective changes in modified cash financial position for the year then ended in conformity with the basis of accounting Note 2 describes.

For the years ended June 30, 2006, June 30, 2005, and June 30, 2004, the SELREC revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006, on our consideration of the SELREC's internal control over financial reporting and our tests of its
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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 the Governmental Accounting Standards Board 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.



Betty Montgomery
Auditor of State

September 21, 2006

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended June 30, 2006, June 30, 2005, and June 30, 2004
Unaudited

This discussion and analysis of the financial performance of the South Euclid-Lyndhurst Recreation Commission, Cuyahoga County, Ohio, (the SELREC) provides an overall review of the SELREC's financial activities for the years ended June 30, 2006, June 30, 2005, and June 30, 2004 within the limitations of the SELREC's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the SELREC's financial performance.

Highlights

Key highlights are as follows:

Net assets of business type activities decreased \$5,858 or 1.26% in 2004 and \$35,222 or 7.65% in 2005. In 2006, net assets of business type activities increased \$75,602 or 17.77%.

The SELREC's operating receipts are classroom material and recreation fees. These receipts represent 91.26%, 91.88%, and 88.18% of total cash received for 2004, 2005, and 2006 respectively.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the SELREC's modified cash basis of accounting.

Report Components

Fund financial statements provide detailed financial information. Funds are created and maintained on financial records as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund. The SELREC's only fund is the Enterprise Fund.

The notes to the financial statements are an integral part of the fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The SELREC has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the SELREC's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the SELREC's Most Significant Funds

Fund financial statements provide detailed information about the SELREC's major fund. The SELREC's fund is classified as proprietary.

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
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Proprietary Funds – When the SELREC charges customers for the services it provides, these services are reported in a proprietary fund. When the services are provided to the general public, the activity is reported as an enterprise fund. The SELREC's only fund is the enterprise fund.

The SELREC

Table 1 provides a summary of the SELREC's fund net assets for 2006, 2005, and 2004 on a modified cash basis:

(Table 1)
Net Assets

| | Business-Type Activities | | |
|--|--------------------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Assets | | | |
| Equity if Pooled Cash and Cash Equivalents | \$18,806 | \$9,781 | \$13,129 |
| Investments | 482,154 | 415,577 | 447,451 |
| Total Assets | 500,960 | 425,358 | 460,580 |
| Net Assets | | | |
| Unrestricted | 500,960 | 425,358 | 460,580 |
| Total Net Assets | \$500,960 | \$425,358 | \$460,580 |

As mentioned previously, net assets of business type activities decreased \$5,858 or 1.26% in 2004 and \$35,222 or 7.65% in 2005. In 2006, net assets of business type activities increased \$75,602 or 17.77%.

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended June 30, 2006, June 30, 2005, and June 30, 2004
Unaudited

Table 2 reflects the changes in fund net assets in 2006, 2005, and 2004:

(Table 2)
Changes in Net Assets
Business Type Activities

| | 2006 | 2005 | 2004 |
|---|------------------|------------------|------------------|
| Receipts: | | | |
| Operating Receipts: | | | |
| Classroom Materials and Recreation Fees | \$1,129,268 | \$987,055 | \$851,164 |
| Total Operating Receipts | <u>1,129,268</u> | <u>987,055</u> | <u>851,164</u> |
| Non-Operating Receipts: | | | |
| Earnings on Investments | 13,327 | 6,401 | 3,594 |
| Other Non-Operating Receipts | 138,006 | 80,849 | 77,895 |
| Total General Receipts | <u>151,333</u> | <u>87,250</u> | <u>81,489</u> |
| Total Receipts | <u>1,280,601</u> | <u>1,074,305</u> | <u>932,653</u> |
| Operating Disbursements: | | | |
| Salaries and Benefits | 242,718 | 223,299 | 212,085 |
| Employees' Retirement and Insurance | 94,307 | 82,584 | 83,799 |
| Purchased and Contracted Services | 737,482 | 711,008 | 574,452 |
| Materials and Supplies | 29,159 | 24,072 | 21,740 |
| Other | 90,541 | 62,254 | 46,335 |
| Capital Outlay | 10,792 | 6,310 | 100 |
| Total Operating Disbursements | <u>1,204,999</u> | <u>1,109,527</u> | <u>938,511</u> |
| Change in Net Assets | 75,602 | (35,222) | (5,858) |
| Net Assets, July 1 | <u>425,358</u> | <u>460,580</u> | <u>466,438</u> |
| Net Assets, June 30 | <u>\$500,960</u> | <u>\$425,358</u> | <u>\$460,580</u> |

Operating receipts represent 88.18%, 91.88%, and 91.26% of the total receipts for 2006, 2005, and 2004, respectively. Operating receipts increased during the three years, due mainly to an increase in the number of recreation programs operated by the SELREC. Disbursements also increased as a result of the increase in the number of recreation programs offered and additional staff needed to operate those programs.

Capital Assets and Debt Administration

Capital Assets

The SELREC maintains a listing of equipment and other assets. Capital assets are not required to be presented in the financial statements.

Debt

The SELREC does not have any debt.

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended June 30, 2006, June 30, 2005, and June 30, 2004
Unaudited

Contacting the SELREC's Financial Management

This financial report is designed to provide our readers with a general overview of the SELREC's finances and to reflect the SELREC's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Rick Dula, Director, South Euclid-Lyndhurst Recreation Commission, 4843 Mayfield Road, Lyndhurst, Ohio, 44124, or Paul Pestello, Treasurer, South Euclid-Lyndhurst City School District, 5044 Mayfield Road, Lyndhurst, Ohio 44124.

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION

CUYAHOGA COUNTY

Statement of Fund Net Assets - Modified Cash Basis

Proprietary Fund

June 30, 2006

| | <u>Business-Type Activities</u> |
|---|---------------------------------|
| | <u>Enterprise Fund</u> |
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$18,806 |
| Investments | 482,154 |
| <i>Total Assets</i> | <u><u>\$500,960</u></u> |
| Net Assets | |
| Unrestricted | <u><u>\$500,960</u></u> |

See accompanying notes to the basic financial statements

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Fund
June 30, 2006*

| | Business-Type Activities |
|---|--------------------------|
| | Enterprise Fund |
| Operating Receipts: | |
| Classroom Materials and Recreation Fees | \$1,129,268 |
| <i>Total Operating Receipts</i> | 1,129,268 |
| Operating Disbursements: | |
| Salaries and Benefits | 242,718 |
| Employees' Retirement and Insurance | 94,307 |
| Purchased and Contracted Services | 737,482 |
| Materials and Supplies | 29,159 |
| Other | 90,541 |
| Capital Outlay | 10,792 |
| <i>Total Operating Disbursements</i> | 1,204,999 |
| <i>Operating Income/(Loss)</i> | (75,731) |
| Non-Operating Receipts: | |
| Earnings on Investments | 13,327 |
| Other Non-Operating Receipts | 138,006 |
| <i>Total Non-Operating Receipts</i> | 151,333 |
| <i>Change in Net Assets</i> | 75,602 |
| <i>Net Assets Beginning of Year</i> | 425,358 |
| <i>Net Assets End of Year</i> | \$500,960 |

See accompanying notes to the basic financial statements

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION

CUYAHOGA COUNTY

Statement of Fund Net Assets - Modified Cash Basis

Proprietary Fund

June 30, 2005

| | <u>Business-Type Activities</u> |
|---|---------------------------------|
| | <u>Enterprise Fund</u> |
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$9,781 |
| Investments | 415,577 |
| <i>Total Assets</i> | <u><u>\$425,358</u></u> |
| Net Assets | |
| Unrestricted | <u><u>\$425,358</u></u> |

See accompanying notes to the basic financial statements

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Fund
June 30, 2005

| | Business-Type Activities |
|---|--------------------------|
| | Enterprise Fund |
| Operating Receipts: | |
| Classroom Materials and Recreation Fees | \$987,055 |
| <i>Total Operating Receipts</i> | <i>987,055</i> |
| Operating Disbursements: | |
| Salaries and Benefits | 223,299 |
| Employees' Retirement and Insurance | 82,584 |
| Purchased and Contracted Services | 711,008 |
| Materials and Supplies | 24,072 |
| Other | 62,254 |
| Capital Outlay | 6,310 |
| <i>Total Operating Disbursements</i> | <i>1,109,527</i> |
| <i>Operating Income/(Loss)</i> | <i>(122,472)</i> |
| Non-Operating Receipts: | |
| Earnings on Investments | 6,401 |
| Other Non-Operating Receipts | 80,849 |
| <i>Total Non-Operating Receipts</i> | <i>87,250</i> |
| <i>Change in Net Assets</i> | <i>(35,222)</i> |
| <i>Net Assets Beginning of Year</i> | <i>460,580</i> |
| <i>Net Assets End of Year</i> | <i>\$425,358</i> |

See accompanying notes to the basic financial statements

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION

CUYAHOGA COUNTY

Statement of Fund Net Assets - Modified Cash Basis

Proprietary Fund

June 30, 2004

| | <u>Business-Type Activities</u> |
|---|---------------------------------|
| | <u>Enterprise Fund</u> |
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$13,129 |
| Investments | <u>447,451</u> |
| <i>Total Assets</i> | <u><u>\$460,580</u></u> |
| Net Assets | |
| Unrestricted | <u><u>\$460,580</u></u> |

See accompanying notes to the basic financial statements

SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Fund
June 30, 2004*

| | Business-Type Activities |
|---|--------------------------|
| | Enterprise Fund |
| Operating Receipts: | |
| Classroom Materials and Recreation Fees | \$851,164 |
| <i>Total Operating Receipts</i> | 851,164 |
| Operating Disbursements: | |
| Salaries and Benefits | 212,085 |
| Employees' Retirement and Insurance | 83,799 |
| Purchased and Contracted Services | 574,452 |
| Materials and Supplies | 21,740 |
| Other | 46,335 |
| Capital Outlay | 100 |
| <i>Total Operating Disbursements</i> | 938,511 |
| <i>Operating Income/(Loss)</i> | (87,347) |
| Non-Operating Receipts: | |
| Earnings on Investments | 3,594 |
| Other Non-Operating Receipts | 77,895 |
| <i>Total Non-Operating Receipts</i> | 81,489 |
| <i>Change in Net Assets</i> | (5,858) |
| <i>Net Assets Beginning of Year</i> | 466,438 |
| <i>Net Assets End of Year</i> | \$460,580 |

See accompanying notes to the basic financial statements

**SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2006, June 30, 2005, and June 30, 2004**

1. REPORTING ENTITY

South Euclid-Lyndhurst Recreation Commission, Cuyahoga County, Ohio, (SELREC) is a regional council of governments established by the Cities of South Euclid and Lyndhurst, and the South Euclid-Lyndhurst City School District under authority of Chapter 167 of the Ohio Revised Code. This regional council of governments was created for the purpose of cooperatively establishing, promoting and coordinating community education and recreation. The participants retain an ongoing financial interest and responsibility.

The regional council is comprised of the Mayors of the City of South Euclid and the City of Lyndhurst and the Superintendent of the South Euclid-Lyndhurst City School District. The regional council members each appoint three members to an advisory committee which are the SELREC Commissioners.

SELREC's management believes these financial statements present all activities for which SELREC is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

These financial statements follow a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements adequately disclose material matters the Auditor of State prescribes.

B. Fund Accounting

SELREC uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. SELREC's fund is classified as proprietary.

Proprietary Fund

SELREC classifies its fund which is financed primarily from user charges for goods or services as a proprietary fund. SELREC's proprietary fund is classified as an enterprise fund.

Enterprise Fund – This fund is used to account for activity for which a fee is charged to external users for goods or services.

C. Basis of Presentation

SELREC' basic financial statements consist of fund financial statements which provide a detailed level of financial information.

**SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2006, June 30, 2005, and June 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

Fund Financial Statements

Fund financial statements are designed to present financial information of SELREC at a detailed level. The focus of enterprise fund financial statements is on major funds. SELREC's major fund is presented in its own column. There are no nonmajor funds.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

D. Cash and Investments

The South Euclid-Lyndhurst City School District Treasurer is the fiscal agent of SELREC. All collections are remitted to either the Treasurer or local depository for deposit. All disbursements are made either by check or through internal School District transfers prepared by the Treasurer, and drawn on deposits held in the name of the South Euclid-Lyndhurst City School District.

Investments are included in fund balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. SELREC invested in STAR Ohio (the State Treasurer's Investment Pool), which is valued at amounts reported by the State Treasurer. The remaining SELREC cash balance is pooled with the South Euclid Lyndhurst City School District.

E. Inventory

On the modified cash basis of accounting, inventories of supplies are reported as disbursements when purchased.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under SELREC's modified cash basis of accounting.

H. Net Assets

The financial statements report restricted net assets when contributors, grantors, or other external factors impose limitations in their use.

**SOUTH EUCLID-LYNDBURST RECREATION COMMISSION
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2006, June 30, 2005, and June 30, 2004
(Continued)**

3. CHANGE IN BASIS OF ACCOUNTING

For the June 30, 2003 and June 30, 2002 financial statements, SELREC reported on the regulatory basis of accounting as prescribed by the State Auditor's Office. For the current financial statements, June 30, 2006, June 30, 2005, and June 30, 2004, SELREC has implemented the modified cash basis of accounting described in Note 2 which presents SELREC's major enterprise fund in its own column.

4. DEPOSITS AND INVESTMENTS

Monies held by SELREC are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the SELREC treasury. Active monies must be maintained as cash in the SELREC treasury, in commercial accounts, payable or available for withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Regional Council 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 held by SELREC can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**SOUTH EUCLID-LYNDBURST RECREATION COMMISSION
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2006, June 30, 2005, and June 30, 2004
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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 SELREC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

At year end 2006, 2005, and 2004, SELREC had book balances of \$18,806, \$9,781 and \$13,129 respectively. The SELREC's deposits are pooled with the South Euclid-Lyndhurst City School District. The South Euclid-Lyndhurst City School District's cash is collateralized

Investments

As of December 31, 2006, SELREC had the following investments:

| Investment Type | Carrying Value | Investment Maturity |
|-----------------|----------------|---------------------|
| STAR Ohio | \$482,154 | 39 days |

As of December 31, 2005, SELREC had the following investments:

| Investment Type | Carrying Value | Investment Maturity |
|-----------------|----------------|---------------------|
| STAR Ohio | \$415,577 | 39 days |

As of December 31, 2004, SELREC had the following investments:

| Investment Type | Carrying Value | Investment Maturity |
|-----------------|----------------|---------------------|
| STAR Ohio | \$447,451 | 39 days |

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

Credit Risk: Standard & Poor's has assigned Star Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, SELREC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

**SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2006, June 30, 2005, and June 30, 2004
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Concentration of Risk: SELREC places no limit on the amount that may be invested in any one issuer. SELREC invested only in STAR Ohio during 2006, 2005, and 2004.

5. PENSION PLAN

The SELREC 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 (614) 222-5853.

For 2006, 2005, and 2004, plan members were required to contribute 10 percent of their annual covered salary and the SELREC is required to contribute at an actuarially determined rate. The SELREC rate for 2006, 2005, and 2004 was 14 percent of annual covered payroll. A portion of the SELREC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2006, 2005, and 2004, 11.7, 10.57, and 9.09 percent of annual covered salary, respectively was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The SELREC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$28,398, \$23,603 and \$19,279, respectively. SELREC has paid all contributions required through June 30, 2006.

6. POSTEMPLOYMENT BENEFITS

The SELREC provides comprehensive health care benefits 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 System based on authority granted by State statute. The system is funded on a pay-as-you-go basis.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal years ended June 30, 2006, June 30, 2005, and June 30, 2004, employer contributions to fund health care benefits were 2.3, 3.43, and 4.91 percent of covered payroll, respectively. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal years 2006, 2005, and 2004, the minimum pay was established at \$35,800, \$27,400, and \$25,400, respectively. However, the surcharge is capped at 2 percent of each employer's SERS salaries.

**SOUTH EUCLID-LYNDHURST RECREATION COMMISSION
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
June 30, 2006, June 30, 2005, and June 30, 2004
(Continued)**

6. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113 and the target level was \$335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

7. RISK MANAGEMENT

The South Euclid-Lyndhurst Recreation Commission has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Errors and omissions.

8. RELATED PARTY TRANSACTIONS

During the fiscal years ended June 30, 2006, June 30, 2005, and June 30, 2004 SELREC rented space from the South Euclid-Lyndhurst City School District. In fiscal years 2005 and 2006, SELREC paid 4% of the previous years receipts as a fiscal fee to the School District for certain administrative services, as well as custodial and maintenance services. The fiscal fee paid to the School District during fiscal years 2006 and 2005 were \$42,972 and \$37,306, respectively. During fiscal year 2004, the fiscal fee was not paid to the School District, as a result of a failed levy.

In each of the fiscal years 2005, and 2004, SELREC received annual contributions totaling \$62,373 from the Cities of South Euclid and Lyndhurst. In fiscal year 2006, SELREC received annual contributions totaling \$103,955 from the Cities of South Euclid and Lyndhurst and the South Euclid-Lyndhurst City School District. These contributions are reflected as miscellaneous non-operating cash receipts in the accompanying financial statements.



Auditor of State Betty Montgomery

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

South Euclid-Lyndhurst Recreation Commission
Cuyahoga County
4843 Mayfield Road
Lyndhurst, Ohio 44124

To the Regional Council:

We have audited the financial statements of the business-type activity of the South Euclid-Lyndhurst Recreation Commission, Cuyahoga County, Ohio, (the SELREC) as of and for the years ended June 30, 2006, June 30, 2005, and June 30, 2004, which collectively comprise the SELREC's basic financial statements and have issued our report thereon dated September 21, 2006, wherein we noted the SELREC uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 SELREC's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the SELREC's management dated September 21, 2006, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the SELREC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management and the Regional Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

September 21, 2006



**Auditor of State
Betty Montgomery**

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SOUTH EUCLID-LYNDBURST RECREATION COMMISSION

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
OCTOBER 19, 2006**