

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	25
Statement of Net Assets – Proprietary Funds	26
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	27
Statement of Cash Flows – Proprietary Funds	28
Statement of Fiduciary Net Assets – Fiduciary Funds	29
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	30
Notes to the Basic Financial Statements	31
Federal Awards Receipts and Expenditures Schedule	69
Notes to the Federal Awards Receipts and Expenditures Schedule	71
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	73
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133	75
Schedule of Findings	77
Schedule of Prior Audit Findings	79

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lakewood City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2005, 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 did not audit the financial statements of the Investment Trust Fund, which represents 51% of assets of the aggregate remaining fund information. Other auditors audited those financial statements. They have furnished their report thereon to us, and we base our opinion, insofar as it relates to the amounts included for the Investment Trust Fund on the report of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lakewood City School District, Cuyahoga County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3A to the basic financial statements, the District restated tax revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2006, 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
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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 and other auditors 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 federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

May 19, 2006



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of Lakewood City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$5,241,108. Net assets of governmental activities increased \$5,311,734, which represents a 55.06% increase from 2004. Net assets of business-type activities decreased \$70,626 or 14.98% from 2004.
- Governmental activities general revenues accounted for \$68,729,111 in revenue or 87.14% of all governmental activities revenues. Governmental activities program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,139,137 or 12.86% of total governmental activities revenues of \$78,868,248.
- The District had \$73,556,514 in expenses related to governmental activities; only \$10,139,137 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$68,729,111 were adequate to provide for these programs.
- The District had \$2,163,151 in expenses related to business-type activities; a total of \$2,082,551 was offset by program specific charges for services, grants and contributions. General revenues include only interest earnings of \$9,974. Total revenues were not adequate to provide for these programs by \$70,626 resulting in a decrease to net assets from \$471,432 to \$400,806.
- The District's major governmental funds are the general fund, debt service fund and building fund. The general fund had \$64,023,836 in revenues and other financing sources and \$61,890,553 in expenditures and other financing uses. The general fund's fund balance increased \$2,133,283 from \$16,833,484 (as restated – see Note 3.A.) to \$18,966,767.
- Another of the District's major governmental funds is the debt service fund. The debt service fund had \$22,404,316 in revenues and other financing sources and \$20,883,239 in expenditures. The debt service fund's fund balance increased \$1,521,077 from \$2,883,961 to \$4,405,038.
- The District's other major governmental fund is the building fund. The building fund had \$66,546,277 in revenues and other financing sources and \$7,435,304 in expenditures. The building fund's fund balance increased \$59,110,973 from \$12,572,423 to \$71,683,396.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund and building fund are by far the most significant funds, and the only governmental funds reported as major funds.

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

**Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

**Business-type Activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's recreation programs and food service operations are reported as business-type activities.

The District's statement of net assets and statement of activities can be found on pages 17-19 of this report.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and building fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 20-25 of this report.

***Proprietary Funds***

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

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also reports the external portion of monies invested on behalf of the Suburban Health Consortium, as its fiscal agent, in a separate investment trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 29-30. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-68 of this report.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

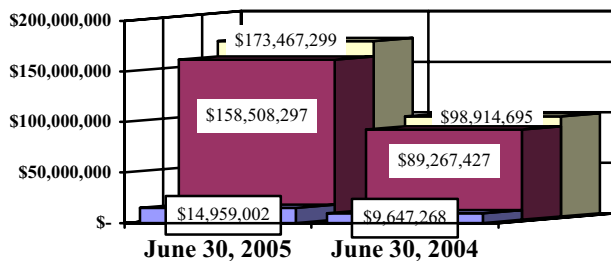
**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2005 and 2004 (as restated – See Note 3.A. to the basic financial statements):

**Net Assets**

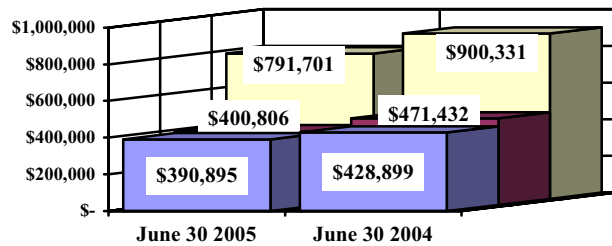
	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	2004	2005	Restated 2004
<b>Assets</b>						
Current assets	\$ 151,875,988	\$84,254,375	\$ 648,839	\$ 736,463	\$ 152,524,827	\$ 84,990,838
Capital assets	21,591,311	14,660,320	142,862	163,868	21,734,173	14,824,188
Total assets	<u>173,467,299</u>	<u>98,914,695</u>	<u>791,701</u>	<u>900,331</u>	<u>174,259,000</u>	<u>99,815,026</u>
<b>Liabilities</b>						
Current liabilities	48,865,872	44,708,312	285,757	315,150	49,151,629	45,023,462
Long-term liabilities	<u>109,642,425</u>	<u>44,559,115</u>	<u>105,138</u>	<u>113,749</u>	<u>109,747,563</u>	<u>44,672,864</u>
Total liabilities	<u>158,508,297</u>	<u>89,267,427</u>	<u>390,895</u>	<u>428,899</u>	<u>158,899,192</u>	<u>89,696,326</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	4,068,298	2,184,245	142,862	163,868	4,211,160	2,348,113
Restricted	7,295,323	17,093,456	-	-	7,295,323	17,093,456
Unrestricted (deficit)	<u>3,595,381</u>	<u>(9,630,433)</u>	<u>257,944</u>	<u>307,564</u>	<u>3,853,325</u>	<u>(9,322,869)</u>
Total net assets	<u>\$ 14,959,002</u>	<u>\$ 9,647,268</u>	<u>\$ 400,806</u>	<u>\$ 471,432</u>	<u>\$ 15,359,808</u>	<u>\$ 10,118,700</u>

**Governmental – Net Assets**



■ Net Assets ■ Liabilities ■ Assets

**Business-Type – Net Assets**



■ Liabilities ■ Net Assets ■ Assets

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The table below shows the changes in net assets for fiscal years 2005 and 2004.

	<b>Change in Net Assets</b>					
	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	2004	2005	Restated 2004
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 4,200,419	\$ 4,085,051	\$ 1,309,152	\$ 1,286,430	\$ 5,509,571	\$ 5,371,481
Operating grants and contributions	5,883,383	6,172,466	773,399	777,162	6,656,782	6,949,628
Capital grants and contributions	55,335	-	-	-	55,335	-
General revenues:						
Property taxes	40,256,469	42,542,323	-	-	40,256,469	42,542,323
Grants and entitlements	26,040,207	25,422,037	-	-	26,040,207	25,422,037
Investment earnings	2,312,076	308,187	9,974	6,554	2,322,050	314,741
Miscellaneous	120,359	501,282	-	-	120,359	501,282
<b>Total revenues</b>	<u>78,868,248</u>	<u>79,031,346</u>	<u>2,092,525</u>	<u>2,070,146</u>	<u>80,960,773</u>	<u>81,101,492</u>
Program expenses:						
Instruction:						
Regular	25,414,587	24,284,814	-	-	25,414,587	24,284,814
Special	11,209,225	10,607,287	-	-	11,209,225	10,607,287
Vocational	3,975,606	4,543,182	-	-	3,975,606	4,543,182
Adult/continuing	240,755	-	-	-	240,755	-
Other	1,603,891	1,376,249	-	-	1,603,891	1,376,249
Support services:						
Pupil	4,726,908	4,665,166	-	-	4,726,908	4,665,166
Instructional staff	4,381,412	4,094,222	-	-	4,381,412	4,094,222
Board of education	100,612	106,375	-	-	100,612	106,375
Administration	3,649,948	3,983,910	-	-	3,649,948	3,983,910
Fiscal	1,628,715	1,480,898	-	-	1,628,715	1,480,898
Business	979,906	894,438	-	-	979,906	894,438
Operations and maintenance	7,455,365	7,308,762	-	-	7,455,365	7,308,762
Pupil transportation	134,393	131,327	-	-	134,393	131,327
Central	431,914	437,371	-	-	431,914	437,371
Operation of non-instructional services	1,298,634	1,208,715	-	-	1,298,634	1,208,715
Extracurricular activities	1,036,066	1,001,687	-	-	1,036,066	1,001,687
Intergovernmental	1,204,160	984,854	-	-	1,204,160	984,854
Interest and fiscal charges	4,084,417	1,303,433	-	-	4,084,417	1,303,433
Food service	-	-	1,885,303	1,947,066	1,885,303	1,947,066
Recreation	-	-	277,848	302,115	277,848	302,115
<b>Total expenses</b>	<u>73,556,514</u>	<u>68,412,690</u>	<u>2,163,151</u>	<u>2,249,181</u>	<u>75,719,665</u>	<u>70,661,871</u>
Special items	-	(12,500,000)	-	-	-	(12,500,000)
Transfers	-	(6,050)	-	6,050	-	-
<b>Changes in net assets</b>	<u>\$ 5,311,734</u>	<u>\$ (1,887,394)</u>	<u>\$ (70,626)</u>	<u>\$ (172,985)</u>	<u>\$ 5,241,108</u>	<u>\$ (2,060,379)</u>

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

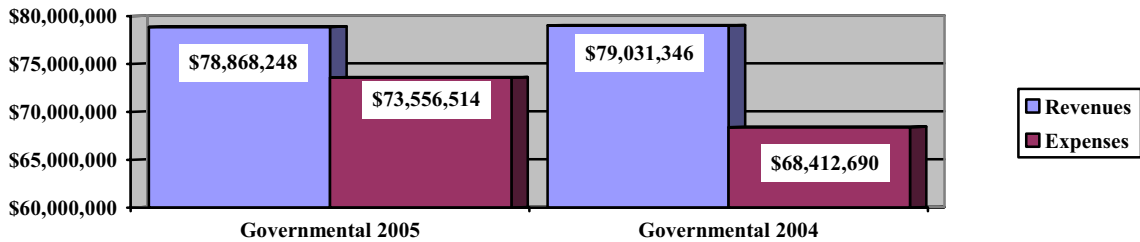
**Governmental Activities**

Net assets of the District's governmental activities increased by \$5,311,734. Total governmental expenses of \$73,556,514 were offset by program revenues of \$10,139,137 and general revenues of \$68,729,111. Program revenues supported 13.78% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 84.06% of total governmental revenue.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses:				
Instruction:				
Regular	25,414,587	21,703,776	24,284,814	23,157,489
Special	11,209,225	9,129,193	10,607,287	7,243,596
Vocational	3,975,606	3,710,701	4,543,182	3,508,889
Adult/continuing	240,755	171,042	-	-
Other	1,603,891	1,603,891	1,376,249	1,154,838

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

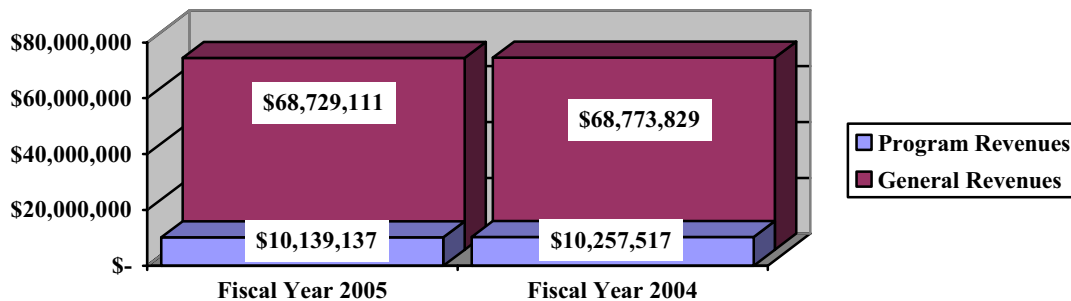
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Support services:				
Pupil	4,726,908	4,317,756	4,665,166	4,212,973
Instructional staff	4,381,412	3,377,374	4,094,222	3,523,534
Board of Education	100,612	100,612	106,375	106,375
Administration	3,649,948	3,285,286	3,983,910	3,532,663
Fiscal	1,628,715	1,611,912	1,480,898	1,464,645
Business	979,906	943,470	894,438	862,707
Operations and maintenance	7,455,365	7,244,150	7,308,762	7,067,693
Pupil transportation	134,393	130,944	131,327	131,327
Central	431,914	368,843	437,371	370,229
Operation of non-instructional services	1,298,634	1,072,247	1,208,715	668,948
Extracurricular activities	1,036,066	508,524	1,001,687	27,131
Intergovernmental	1,204,160	53,239	984,854	(181,297)
Interest and fiscal charges	4,084,417	4,084,417	1,303,433	1,303,433
<b>Total expenses</b>	<b><u>\$ 73,556,514</u></b>	<b><u>\$ 63,417,377</u></b>	<b><u>\$ 68,412,690</u></b>	<b><u>\$ 58,155,173</u></b>

The dependence upon tax revenue during fiscal year 2005 for governmental activities is apparent, as 85.57% of 2005 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 86.22% in 2005. The District's taxpayers, as a whole, is by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

**Governmental Activities - General and Program Revenues**



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Business-Type Activities**

Business-type activities include recreation and the food service operation. These programs had revenues of \$2,092,525 and expenses of \$2,163,151 for fiscal year 2005. The food service operations had expenses of \$1,885,303 and revenues of \$1,807,619. This resulted in a decrease to net assets for the fiscal year of \$77,684. The recreation programs had expenses of \$277,848 and revenues of \$284,906. This resulted in an increase to net assets for the fiscal year of \$7,058. These funds are self-supporting through user fees and charges. Management assesses their performance to ensure that they are run efficiently.

**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$97,209,772, which is above last year's total of \$34,540,317. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 18,966,767	\$ 16,833,484	\$ 2,133,283
Debt Service	4,405,038	2,883,961	1,521,077
Building	71,683,396	12,572,423	59,110,973
Other Governmental	<u>2,154,571</u>	<u>2,250,449</u>	<u>(95,878)</u>
Total	<u>\$ 97,209,772</u>	<u>\$ 34,540,317</u>	<u>\$62,669,455</u>

**General Fund**

The District's general fund balance increased by \$2,133,283. Total revenues decreased 6.13% while total expenditures increased by 3.22%. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Percentage <u>Change</u>
<b>Revenues</b>			
Taxes	\$ 34,980,927	\$ 38,934,295	(10.15) %
Interest earnings	617,051	203,947	202.55 %
Intergovernmental	25,337,803	25,112,414	0.90 %
Other revenues	<u>3,007,907</u>	<u>3,865,300</u>	(22.18) %
Total	<u>\$ 63,943,688</u>	<u>\$ 68,115,956</u>	(6.13) %

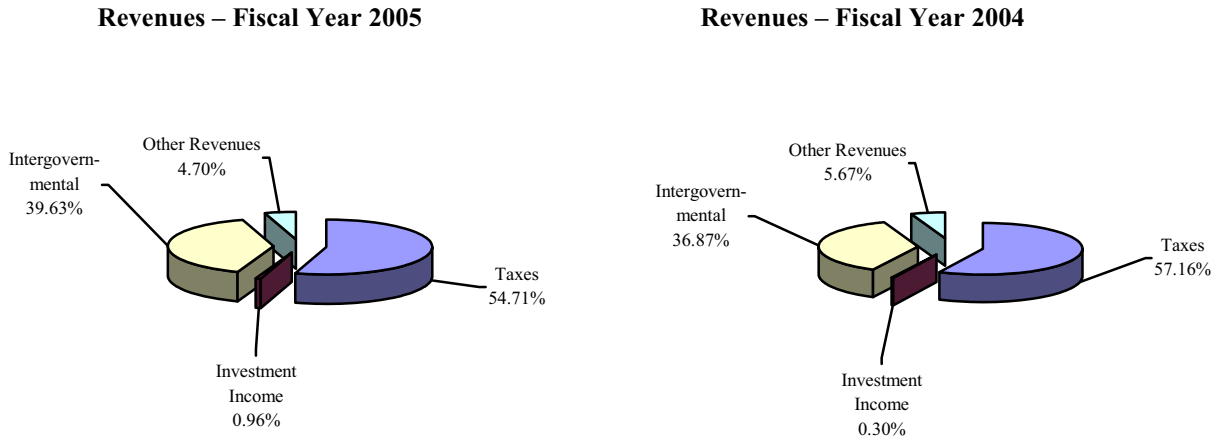
Tax revenue decreased \$3,953,368 or 10.15% from the prior year. This decrease resulted from 2004 being an unusual year for tax collections as the Cuyahoga County Auditor collected a substantial amount of taxes prior to the fiscal year end that were available to the District as an advance. Variances can occur in the amount collected (and available for advance) by the Cuyahoga County Auditor by fiscal year end depending upon when the tax bills are sent. The increase in investment income is due to increased interest rates by the Federal Reserve Bank throughout the year.



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

Intergovernmental revenue remained comparable to 2004.



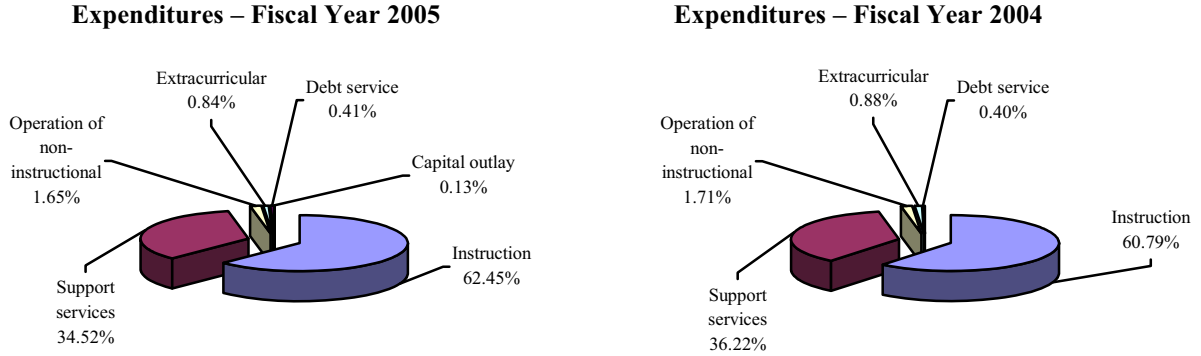
The table that follows assists in illustrating the expenditures of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	<u>Percentage Change</u>
<b><u>Expenditures</u></b>			
Instruction	\$ 38,632,781	\$ 36,431,720	6.04 %
Support services	21,352,508	21,710,657	(1.65) %
Operation of non-instructional services	1,021,677	1,027,070	(0.53) %
Extracurricular activities	522,285	524,967	(0.51) %
Capital outlay	80,148	-	100.00 %
Debt service	251,154	239,204	5.00 %
<b>Total</b>	<u>\$ 61,860,553</u>	<u>\$ 59,933,618</u>	3.22 %

The most significant increase was in the area of capital outlay. This increase is due to the District entering into a capital lease during the 2005 fiscal year for the acquisition of a school bus. Instruction expenditures increased by \$2,201,061 or 6.04%. This increase is primarily due to wage and benefit increases. All other expenditures remained comparable to 2004.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**



***Debt Service Fund***

The debt service fund had \$22,404,316 in revenues and other financing sources and \$20,883,239 in expenditures. The debt service fund's fund balance increased \$1,521,077 from \$2,883,961 (as restated – see Note 3.A.) to \$4,405,038.

***Building Fund***

The building fund had \$66,546,277 in revenues and other financing sources and \$7,435,304 in expenditures. The building fund's fund balance increased \$59,110,973 from \$12,572,423 to \$71,683,396. Fund balance increased due to proceeds of a school improvement bond issue in the amount of \$64,999,987 which were received in fiscal 2005.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2005, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, final budgeted revenues and other financing sources were \$65,076,704, which was decreased from the original budgeted revenues and other financing sources estimate of \$65,082,530. Actual revenues and other financing sources for fiscal 2005 was \$66,292,060. This represents a \$1,215,356 increase over final budgeted revenues.

General fund original appropriations (expenditures and other financing uses) of \$66,098,603 were increased to \$67,229,684 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$63,700,075, which was \$3,529,609 less than the final budget appropriations.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Capital Assets and Debt Administration**

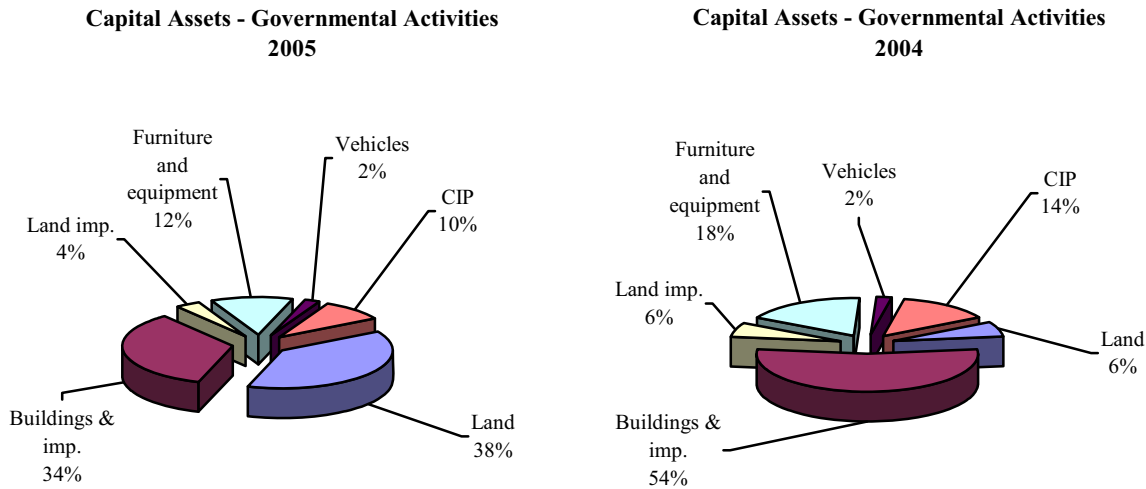
**Capital Assets**

At the end of fiscal 2005, the District had \$21,734,173 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$21,591,311 was reported in governmental activities and \$142,862 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 8,278,282	\$ 944,350	\$ -	\$ -	\$ 8,278,282	\$ 944,350
Land improvements	816,831	880,670	-	-	816,831	880,670
Building and improvements	7,412,238	7,891,085	-	-	7,412,238	7,891,085
Furniture and equipment	2,589,203	2,619,979	142,862	163,868	2,732,065	2,783,847
Vehicles	426,731	322,622	-	-	426,731	322,622
Construction in progress	2,068,026	2,001,614	-	-	2,068,026	2,001,614
<b>Total</b>	<b>\$21,591,311</b>	<b>\$14,660,320</b>	<b>\$ 142,862</b>	<b>\$ 163,868</b>	<b>\$21,734,173</b>	<b>\$14,824,188</b>

The following graphs show the breakdown of governmental activities capital assets by category for 2005 and 2004.



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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***Debt Administration***

At June 30, 2005 the District had \$100,982,696 in general obligation bonds, notes payable and capital leases outstanding. Of this total, \$18,784,090 is due within one year and \$82,198,606 is due within greater than one year. The following table summarizes the bonds, notes and capital leases outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 85,834,809	\$ 22,200,635
Notes payable	15,000,000	15,000,000
Capital leases	<u>147,887</u>	<u>303,705</u>
Total	<u>\$ 100,982,696</u>	<u>\$ 37,504,340</u>

The District maintains an A-1 bond rating.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District has carefully managed its general fund budgets in order to optimize the dollars available for educating the students it serves, and to minimize the levy millage amounts needed periodically from the community's citizens. As the preceding information shows, the general fund's unrestricted cash balance was \$22,002,572 at June 30, 2005. The general fund cash balance includes the internal portion of the Suburban Health Consortiums investment pool along with the cash balance of rotary funds. On a GAAP-basis, these amounts are consolidated with the general fund. Fiscal year-end general fund unrestricted cash balances were \$18,040,883, \$13,226,206, \$10,049,111, \$11,539,538, and \$7,850,746 at June 30 in Fiscal Years 2004, 2003, 2002, 2001, and 2000, respectively. Sound fiscal management by the Board of Education and Administration has enabled the District to maintain a healthy cash balance, pass three consecutive operating levies in 1995, 1999, and 2002 at minimum millage amounts possible, and continue a quality, comprehensive educational program.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The Board's five-year projections indicated that the natural budget cycle needs would require additional operating income beginning in fiscal year 2003. In May 2002, the Board submitted, and the electors of the District approved (by a vote of 55.66% to 44.34%) a 6.9-mill ad valorem property tax for the purpose of current expenses for a continuing period of time. That levy generates approximately \$5,591,929 annually. By monitoring its five-year forecast, the Board was able to request voter approval early in the forecast cycle to lower the millage amount needed and not face possible reductions in educational programming. The Board is committed to utilizing the additional funds the District receives from the new levy to increase teacher salaries and purchase instructional materials, textbooks, and technology. It is anticipated that additional operating funds from local taxes will be necessary again in Fiscal Year 2007. In April and May 2004, the Board announced a series of reductions in operating expenses that took effect in Fiscal year 2005. These reductions of approximately \$2 million annually are necessary to minimize the size of the next operating levy that will be needed by the District, and to offset the lack of additional state funding needed to meet increasing costs.

Several significant legislative and judicial actions have occurred that will have a major impact on our School District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." The State has not yet developed a school-funding plan that has been deemed acceptable by the Court, and ultimate resolution still seems to be some time in the future. There is concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. The biennial budget approved by the State for Fiscal Years 2006 and 2007 did not prove helpful to the funding situation for Lakewood City Schools. The District was projected by the State of Ohio to receive approximately the same amount of state funding in fiscal years 2006 and 2007 as it received in fiscal year 2005. The Board has already gone one additional year past its May 2002 levy promise not to seek additional operating levies from the local voters for three years. The Board is presently exploring the possibility of going a fifth year between operating levies. Budget cuts and operational efficiencies implemented over the past several years allow this discussion to occur. Additionally, The District has been able to streamline some of its operations, thus cutting expenses, due to commencement of its new school facilities program.

Declining enrollment over the past ten years is a trend that has received, and will continue to receive, the attention of the Board and Administration. Reduced student counts lead to staffing cuts, excess building capacity, and less state funding. Each of these factors negatively impacts the operations of the District.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board empowered the "Designing Our Schools for the Next 50 Years" Committee to develop a plan for school building replacement/renovation, grade configuration, and building numbers and locations. The Board has worked with the Ohio School Facilities Commission (OSFC) to develop a master facilities plan and project agreement, both of which are necessary in order to access state funds to assist with costs related to the plan. OSFC funding will comprise approximately 31% of the approved project costs; thus, it is important to capture this revenue source to relieve some of the financial burden from local taxpayers. The Lakewood community passed a \$93.6 million bond issue in March 2004, to begin the first construction phase of the facilities plan. Community and staff committees have designed two new elementary schools and two new middle schools. When the entire project is completed over the next six to eight years, the District will reduce its operations from 14 school buildings (10 elementary schools, 3 middle schools, and 1 high school) to 10 school buildings (7 elementary schools, 2 middle schools and 1 high school). The operational efficiencies created by this realignment of facilities will lessen millage amounts that will be needed for general fund operations in years after the facilities plan is completed.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The Lakewood City School District has committed itself to educational and financial excellence for many years. This is exemplified by the unqualified audit opinions that have been received by the Auditor of State. Each challenge identified in this section is viewed simultaneously as an opportunity for the District to foray down paths not previously traveled to continue its commitment to excellence. The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support the educational program.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Richard Berdine, Treasurer, Lakewood City School District, 1470 Warren Road, Lakewood, Ohio 44107.

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

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and investments . . . . .	\$ 102,470,613	\$ 540,228	\$ 103,010,841
Receivables:			
Taxes . . . . .	46,367,277	-	46,367,277
Accounts . . . . .	37,237	35	37,272
Intergovernmental . . . . .	1,681,664	88,100	1,769,764
Accrued interest . . . . .	482,464	-	482,464
Internal balances . . . . .	1,200	(1,200)	-
Prepayments . . . . .	62,413	-	62,413
Materials and supplies inventory . . . . .	-	21,676	21,676
Unamortized bond issue costs . . . . .	773,120	-	773,120
Capital assets:			
Land and construction in progress . . . . .	10,346,308	-	10,346,308
Depreciable capital assets, net . . . . .	11,245,003	142,862	11,387,865
Total capital assets, net . . . . .	21,591,311	142,862	21,734,173
<b>Total assets.</b> . . . . .	<b>173,467,299</b>	<b>791,701</b>	<b>174,259,000</b>
<b>Liabilities:</b>			
Accounts payable. . . . .	1,703,380	16,904	1,720,284
Accrued wages and benefits . . . . .	6,956,691	140,887	7,097,578
Pension obligation payable. . . . .	1,630,932	126,064	1,756,996
Intergovernmental payable . . . . .	297,267	1,902	299,169
Deferred revenue . . . . .	37,707,293	-	37,707,293
Accrued interest payable . . . . .	570,309	-	570,309
Long-term liabilities:			
Due within one year. . . . .	19,721,130	263	19,721,393
Due within more than one year . . . . .	89,921,295	104,875	90,026,170
<b>Total liabilities.</b> . . . . .	<b>158,508,297</b>	<b>390,895</b>	<b>158,899,192</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	4,068,298	142,862	4,211,160
Restricted for:			
Capital projects . . . . .	2,283,306	-	2,283,306
Debt service. . . . .	4,047,031	-	4,047,031
Locally funded programs . . . . .	2,859	-	2,859
State funded programs . . . . .	225,851	-	225,851
Federally funded programs . . . . .	518,965	-	518,965
Student activities . . . . .	217,311	-	217,311
Unrestricted . . . . .	3,595,381	257,944	3,853,325
<b>Total net assets.</b> . . . . .	<b>\$ 14,959,002</b>	<b>\$ 400,806</b>	<b>\$ 15,359,808</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 25,414,587	\$ 3,196,377	\$ 459,099	\$ 55,335
Special . . . . .	11,209,225	-	2,080,032	-
Vocational . . . . .	3,975,606	32,070	232,835	-
Adult/continuing . . . . .	240,755	-	69,713	-
Other . . . . .	1,603,891	-	-	-
Support services:				
Pupil. . . . .	4,726,908	3,512	405,640	-
Instructional staff . . . . .	4,381,412	94,321	909,717	-
Board of education . . . . .	100,612	-	-	-
Administration. . . . .	3,649,948	3,586	361,076	-
Fiscal. . . . .	1,628,715	3,124	13,679	-
Business. . . . .	979,906	36,436	-	-
Operations and maintenance . . . . .	7,455,365	207,053	4,162	-
Pupil transportation. . . . .	134,393	3,449	-	-
Central . . . . .	431,914	-	63,071	-
Operation of non-instructional				
services . . . . .	1,298,634	93,799	132,588	-
Extracurricular activities. . . . .	1,036,066	526,692	850	-
Intergovernmental . . . . .	1,204,160	-	1,150,921	-
Interest and fiscal charges . . . . .	4,084,417	-	-	-
Total governmental activities . . . . .	<u>73,556,514</u>	<u>4,200,419</u>	<u>5,883,383</u>	<u>55,335</u>
<b>Business-Type activities:</b>				
Food service. . . . .	1,885,303	1,024,246	773,399	-
Recreation. . . . .	277,848	284,906	-	-
Total business-type activities . . . . .	<u>2,163,151</u>	<u>1,309,152</u>	<u>773,399</u>	<u>-</u>
Totals . . . . .	<u>\$ 75,719,665</u>	<u>\$ 5,509,571</u>	<u>\$ 6,656,782</u>	<u>\$ 55,335</u>

**General Revenues:**

Property taxes levied for:
General purposes . . . . .
Debt service. . . . .
Grants and entitlements not restricted to specific programs . . . . .
Investment earnings . . . . .
Miscellaneous . . . . .
Total general revenues . . . . .

Change in net assets . . . . .

**Net assets at beginning of year (restated) . . . . .**

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (21,703,776)	\$ -	\$ (21,703,776)
(9,129,193)	-	(9,129,193)
(3,710,701)	-	(3,710,701)
(171,042)	-	(171,042)
(1,603,891)	-	(1,603,891)
(4,317,756)	-	(4,317,756)
(3,377,374)	-	(3,377,374)
(100,612)	-	(100,612)
(3,285,286)	-	(3,285,286)
(1,611,912)	-	(1,611,912)
(943,470)	-	(943,470)
(7,244,150)	-	(7,244,150)
(130,944)	-	(130,944)
(368,843)	-	(368,843)
(1,072,247)	-	(1,072,247)
(508,524)	-	(508,524)
(53,239)	-	(53,239)
(4,084,417)	-	(4,084,417)
<u>(63,417,377)</u>	<u>-</u>	<u>(63,417,377)</u>
-	(87,658)	(87,658)
-	7,058	7,058
-	(80,600)	(80,600)
<u>(63,417,377)</u>	<u>(80,600)</u>	<u>(63,497,977)</u>
35,007,321	-	35,007,321
5,249,148	-	5,249,148
26,040,207	-	26,040,207
2,312,076	9,974	2,322,050
120,359	-	120,359
<u>68,729,111</u>	<u>9,974</u>	<u>68,739,085</u>
5,311,734	(70,626)	5,241,108
<u>9,647,268</u>	<u>471,432</u>	<u>10,118,700</u>
<u>\$ 14,959,002</u>	<u>\$ 400,806</u>	<u>\$ 15,359,808</u>

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<b>General</b>	<b>Debt Service</b>	<b>Building</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>					
Equity in pooled cash and investments . . . . .	\$ 22,002,572	\$ 3,901,780	\$ 72,450,452	\$ 3,280,868	\$ 101,635,672
Receivables:					
Taxes . . . . .	38,383,577	7,983,700	-	-	46,367,277
Accounts . . . . .	26,801	-	-	10,436	37,237
Intergovernmental . . . . .	562,889	-	-	1,118,775	1,681,664
Accrued interest . . . . .	62,462	-	420,002	-	482,464
Interfund loans . . . . .	1,288,300	-	-	-	1,288,300
Prepayments . . . . .	62,413	-	-	-	62,413
Total assets . . . . .	<u>\$ 62,389,014</u>	<u>\$ 11,885,480</u>	<u>\$ 72,870,454</u>	<u>\$ 4,410,079</u>	<u>\$ 151,555,027</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 569,620	\$ -	\$ 967,971	\$ 165,789	\$ 1,703,380
Accrued wages and benefits . . . . .	6,755,213	-	-	201,478	6,956,691
Compensated absences payable . . . . .	1,060,141	-	-	13,224	1,073,365
Pension obligation payable . . . . .	1,574,652	-	-	56,280	1,630,932
Intergovernmental payable . . . . .	126,513	-	-	12,187	138,700
Interfund loan payable . . . . .	-	-	-	1,287,100	1,287,100
Deferred revenue . . . . .	33,336,108	7,480,442	219,087	519,450	41,555,087
Total liabilities . . . . .	<u>43,422,247</u>	<u>7,480,442</u>	<u>1,187,058</u>	<u>2,255,508</u>	<u>54,345,255</u>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	747,998	-	6,249,065	283,192	7,280,255
Reserved for property tax unavailable for appropriation . . . . .	5,346,463	490,235	-	-	5,836,698
Reserved for debt service . . . . .	-	3,914,803	-	-	3,914,803
Reserved for prepayments . . . . .	62,413	-	-	-	62,413
Unreserved, undesignated, reported in:					
General fund . . . . .	12,809,893	-	-	-	12,809,893
Special revenue funds . . . . .	-	-	-	736,351	736,351
Capital projects funds . . . . .	-	-	65,434,331	1,135,028	66,569,359
Total fund balances . . . . .	<u>18,966,767</u>	<u>4,405,038</u>	<u>71,683,396</u>	<u>2,154,571</u>	<u>97,209,772</u>
Total liabilities and fund balances . . . . .	<u>\$ 62,389,014</u>	<u>\$ 11,885,480</u>	<u>\$ 72,870,454</u>	<u>\$ 4,410,079</u>	<u>\$ 151,555,027</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances</b>		\$	97,209,772
<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.			21,591,311
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	2,675,590	
Accrued interest		255,521	
Accounts		397,233	
Intergovernmental revenue		519,450	
Total			3,847,794
Unamortized deferred charges are not recognized in the funds.			199,561
Unamortized premiums on bond issuances are not recognized in the funds.			(1,906,860)
Unamortized bond issuance costs are not recognized in the funds			773,120
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			676,374
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		85,834,809	
Notes payable		15,000,000	
Compensated absences		5,879,065	
Capital lease obligations		147,887	
Accrued interest payable		570,309	
Total			(107,432,070)
<b>Net assets of governmental activities</b>		\$	14,959,002

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 34,980,927	\$ 5,161,822	\$ -	\$ -	\$ 40,142,749
Tuition . . . . .	2,613,375	-	-	59,916	2,673,291
Earnings on investments . . . . .	617,051	-	1,521,535	14,926	2,153,512
Extracurricular . . . . .	60,840	-	-	23,040	83,880
Classroom materials and fees . . . . .	202,396	-	-	69,155	271,551
Other local revenues . . . . .	131,296	-	24,755	1,053,447	1,209,498
Intergovernmental - intermediate . . . . .	-	-	-	39,279	39,279
Intergovernmental - state . . . . .	24,559,773	702,404	-	2,132,115	27,394,292
Intergovernmental - federal . . . . .	778,030	-	-	3,755,285	4,533,315
Total revenue . . . . .	<u>63,943,688</u>	<u>5,864,226</u>	<u>1,546,290</u>	<u>7,147,163</u>	<u>78,501,367</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	24,112,632	-	-	922,316	25,034,948
Special . . . . .	9,024,173	-	-	2,109,175	11,133,348
Vocational . . . . .	3,717,565	-	-	246,847	3,964,412
Adult/continuing . . . . .	174,520	-	-	67,489	242,009
Other . . . . .	1,603,891	-	-	-	1,603,891
Support Services:					
Pupil . . . . .	4,239,648	-	-	459,397	4,699,045
Instructional staff . . . . .	3,382,710	-	-	912,196	4,294,906
Board of education . . . . .	93,738	-	-	-	93,738
Administration . . . . .	3,323,400	-	-	380,405	3,703,805
Fiscal . . . . .	1,602,717	403	-	17,154	1,620,274
Business . . . . .	975,479	-	-	467	975,946
Operations and maintenance . . . . .	7,289,776	-	34,960	7,035	7,331,771
Pupil transportation . . . . .	85,736	-	-	3,952	89,688
Central . . . . .	359,304	-	-	70,815	430,119
Operation of non-instructional services . . . . .	1,021,677	-	-	242,071	1,263,748
Extracurricular activities . . . . .	522,285	-	-	507,794	1,030,079
Intergovernmental pass through . . . . .	-	-	-	1,202,677	1,202,677
Facilities acquisition and construction . . . . .	-	-	7,400,344	123,251	7,523,595
Capital outlay . . . . .	80,148	-	-	-	80,148
Debt service:					
Principal retirement . . . . .	235,966	16,550,000	-	-	16,785,966
Interest and fiscal charges . . . . .	15,188	3,777,633	-	-	3,792,821
Bond issuance costs . . . . .	-	555,203	-	-	555,203
Total expenditures . . . . .	<u>61,860,553</u>	<u>20,883,239</u>	<u>7,435,304</u>	<u>7,273,041</u>	<u>97,452,137</u>
Excess of revenues under expenditures . . . . .	<u>2,083,135</u>	<u>(15,019,013)</u>	<u>(5,889,014)</u>	<u>(125,878)</u>	<u>(18,950,770)</u>

-- Continued

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	\$ -	\$ -	\$ -	\$ 30,000	\$ 30,000
Transfers (out) . . . . .	(30,000)	-	-	-	(30,000)
Accrued interest on bonds sold . . . . .	-	1,524,740	-	-	1,524,740
Premium on bonds issued. . . . .	-	15,350	-	-	15,350
Capital lease transaction . . . . .	80,148	-	-	-	80,148
Issuance of bonds . . . . .	-	-	64,999,987	-	64,999,987
Issuance of notes . . . . .	-	15,000,000	-	-	15,000,000
Total other financing sources (uses) . . . . .	<u>50,148</u>	<u>16,540,090</u>	<u>64,999,987</u>	<u>30,000</u>	<u>81,620,225</u>
Net change in fund balances . . . . .	2,133,283	1,521,077	59,110,973	(95,878)	62,669,455
<b>Fund balances at beginning</b>					
<b>of year (restated) . . . . .</b>	<u>16,833,484</u>	<u>2,883,961</u>	<u>12,572,423</u>	<u>2,250,449</u>	<u>34,540,317</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 18,966,767</u>	<u>\$ 4,405,038</u>	<u>\$ 71,683,396</u>	<u>\$ 2,154,571</u>	<u>\$ 97,209,772</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<b>Net change in fund balances - total governmental funds</b>	\$	62,669,455
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 7,969,245	
Current year depreciation	(1,034,808)	
Total		6,934,437
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(3,446)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported on the statement of activities:		
Increase in accrued interest payable	(158,124)	
Accretion of interest on "capital appreciation" bonds	(184,187)	
Amortization of bond premium	97,441	
Amortization of deferred charges on refundings	(23,710)	
Amortization of bond issue costs	(38,366)	
		(306,946)
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(1,524,740)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		555,203
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	113,720	
Intergovernmental	(70,358)	
Accrued interest	158,564	
Tuition	164,695	
Other	260	
Total		366,881
Repayment of bonds, notes, loans and capital lease obligations are expenditures in the governmental funds, but the repayments reduce long-term liabilities on the statement of net assets.		
		16,785,966
Proceeds of bonds, notes and capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(80,080,135)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(127,471)
The internal service fund used by management to charge the costs of worker's compensation insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		42,530
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>5,311,734</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 35,579,470	\$ 35,564,134	\$ 36,333,699	\$ 769,565
Tuition. . . . .	2,817,563	2,816,349	2,486,711	(329,638)
Earnings on investments. . . . .	258,519	258,408	597,825	339,417
Extracurricular. . . . .	69,823	69,793	60,840	(8,953)
Classroom materials and fees . . . . .	238,032	237,929	203,865	(34,064)
Other local revenues. . . . .	317,563	339,653	314,267	(25,386)
Intergovernmental - state . . . . .	24,593,442	24,582,841	24,559,773	(23,068)
Intergovernmental - federal . . . . .	179,648	179,571	778,030	598,459
Total revenue . . . . .	<u>64,054,060</u>	<u>64,048,678</u>	<u>65,335,010</u>	<u>1,286,332</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	24,182,500	24,595,408	24,098,526	496,882
Special. . . . .	8,864,115	9,014,714	8,995,105	19,609
Vocational. . . . .	4,519,080	4,601,889	3,945,572	656,317
Adult/continuing. . . . .	237,153	241,182	179,321	61,861
Other . . . . .	1,572,505	1,599,221	1,585,422	13,799
Support Services:				
Pupil. . . . .	4,316,748	4,390,088	4,267,265	122,823
Instructional staff . . . . .	3,729,779	3,793,147	3,432,676	360,471
Board of education . . . . .	105,425	107,216	85,784	21,432
Administration. . . . .	3,555,818	3,616,230	3,408,886	207,344
Fiscal . . . . .	1,635,808	1,663,600	1,615,662	47,938
Business . . . . .	1,181,272	1,201,342	1,027,846	173,496
Operations and maintenance. . . . .	8,878,962	9,029,813	7,714,392	1,315,421
Pupil transportation . . . . .	143,217	145,650	124,937	20,713
Central. . . . .	491,028	499,370	359,272	140,098
Operation of non-instructional services . . . .	1,124,019	1,143,116	1,019,841	123,275
Extracurricular activities. . . . .	597,546	607,698	521,268	86,430
Total expenditures . . . . .	<u>65,134,975</u>	<u>66,249,684</u>	<u>62,381,775</u>	<u>3,867,909</u>
Excess of revenues over (under) expenditures. . . . .	<u>(1,080,915)</u>	<u>(2,201,006)</u>	<u>2,953,235</u>	<u>5,154,241</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	1,864	1,863	350	(1,513)
Transfers in . . . . .	69,493	69,463	-	(69,463)
Transfers (out) . . . . .	(29,499)	(30,000)	(30,000)	-
Advances in. . . . .	957,113	956,700	956,700	-
Advances (out) . . . . .	(934,129)	(950,000)	(1,288,300)	(338,300)
Total other financing sources (uses) . . . . .	<u>64,842</u>	<u>48,026</u>	<u>(361,250)</u>	<u>(409,276)</u>
Net change in fund balance . . . . .	(1,016,073)	(2,152,980)	2,591,985	4,744,965
<b>Fund balance at beginning of year . . . . .</b>	17,490,819	17,490,819	17,490,819	-
<b>Prior year encumbrances appropriated . . .</b>	937,622	937,622	937,622	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 17,412,368</u>	<u>\$ 16,275,461</u>	<u>\$ 21,020,426</u>	<u>\$ 4,744,965</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and investments. . . . .	\$ 540,228	\$ 834,941
Receivables:		
Accounts . . . . .	35	-
Intergovernmental . . . . .	88,100	-
Materials and supplies inventory . . . . .	21,676	-
	650,039	834,941
Total current assets . . . . .		
	650,039	834,941
Noncurrent assets:		
Depreciable capital assets, net . . . . .	142,862	-
	142,862	-
Total assets . . . . .		
	792,901	834,941
<b>Liabilities:</b>		
Accounts payable. . . . .	16,904	-
Accrued wages and benefits . . . . .	140,887	-
Compensated absences. . . . .	263	-
Pension obligation payable. . . . .	126,064	-
Interfund loan payable . . . . .	1,200	-
Intergovernmental payable . . . . .	1,902	158,567
	287,220	158,567
Total current liabilities . . . . .		
	287,220	158,567
Long-term liabilities:		
Compensated absences payable. . . . .	104,875	-
	104,875	-
Total liabilities . . . . .		
	392,095	158,567
<b>Net assets:</b>		
Invested in capital assets, net of related debt . . . . .	142,862	-
Unrestricted. . . . .	257,944	676,374
	400,806	676,374
Total net assets . . . . .		
	\$ 400,806	\$ 676,374

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
<b>Operating revenues:</b>		
Sales/charges for services . . . . .	\$ 1,309,152	\$ 172,816
Total operating revenues . . . . .	1,309,152	172,816
<b>Operating expenses:</b>		
Personal services . . . . .	1,113,003	-
Purchased services . . . . .	30,000	130,286
Materials and supplies . . . . .	959,482	-
Depreciation . . . . .	21,006	-
Other . . . . .	39,660	-
Total operating expenses . . . . .	2,163,151	130,286
Operating income (loss) . . . . .	(853,999)	42,530
<b>Nonoperating revenues:</b>		
Federal donated commodities . . . . .	105,811	-
Interest revenue . . . . .	9,974	-
Grants and subsidies . . . . .	667,588	-
Total nonoperating revenues . . . . .	783,373	-
Change in net assets . . . . .	(70,626)	42,530
<b>Net assets at beginning of year . . . . .</b>	<b>471,432</b>	<b>633,844</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 400,806</b>	<b>\$ 676,374</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities:</b>		
Cash received from sales/charges for services. . . . .	\$ 1,309,149	\$ 172,816
Cash payments for personal services. . . . .	(1,159,128)	-
Cash payments for contractual services . . . . .	(30,000)	(220,480)
Cash payments for materials and supplies . . . . .	(853,421)	-
Cash payments for other expenses . . . . .	(27,234)	-
	<u>                    </u>	<u>                    </u>
Net cash used in operating activities . . . . .	(760,634)	(47,664)
<b>Cash flows from noncapital financing activities:</b>		
Cash received from grants and subsidies. . . . .	666,204	-
Cash used in repayment of interfund loans . . . . .	(1,400)	-
Cash received from interfund loans . . . . .	1,200	-
	<u>                    </u>	<u>                    </u>
Net cash provided by noncapital financing activities. . . . .	666,004	-
<b>Cash flows from investing activities:</b>		
Interest received . . . . .	9,974	-
	<u>                    </u>	<u>                    </u>
Net cash provided by investing activities . . . . .	9,974	-
	<u>                    </u>	<u>                    </u>
Net decrease in cash and cash equivalents . . . . .	(84,656)	(47,664)
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>624,884</u>	<u>882,605</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 540,228</u>	<u>\$ 834,941</u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>		
Operating income (loss) . . . . .	\$ (853,999)	\$ 42,530
Adjustments:		
Depreciation. . . . .	21,006	-
Federal donated commodities . . . . .	105,811	-
Changes in assets and liabilities:		
Increase in materials and supplies inventory. . . . .	4,587	-
Decrease in accounts receivable . . . . .	(35)	-
Increase in accounts payable. . . . .	8,121	-
Increase in accrued wages and benefits . . . . .	564	-
Decrease in intergovernmental payable . . . . .	(16)	(90,194)
Decrease in compensated absences payable . . . . .	(8,611)	-
Decrease in pension obligation payable . . . . .	(38,062)	-
	<u>                    </u>	<u>                    </u>
Net cash used in operating activities . . . . .	<u>\$ (760,634)</u>	<u>\$ (47,664)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<b>Private-Purpose Trust</b>	<b>Investment Trust</b>	<b>Agency</b>
	<b>Scholarship</b>	<b>Trust</b>	<b>Agency</b>
<b>Assets:</b>			
Equity in pooled cash and investments. . . . .	\$ 24,529	\$ 6,519,510	\$ 119,441
Receivables:			
Accounts . . . . .	-	-	750
Accrued interest . . . . .	-	14,302	-
	24,529	6,533,812	\$ 120,191
<b>Total assets . . . . .</b>	<b>24,529</b>	<b>6,533,812</b>	<b>\$ 120,191</b>
<b>Liabilities:</b>			
Intergovernmental payable . . . . .	-	-	\$ 37,043
Due to students . . . . .	-	-	83,148
	-	-	\$ 120,191
<b>Total liabilities . . . . .</b>	<b>-</b>	<b>-</b>	<b>\$ 120,191</b>
<b>Net Assets:</b>			
Held in trust for scholarships . . . . .	24,529	-	
Net assets available to pool participants . . . . .	-	6,533,812	
	24,529	6,533,812	
<b>Total net assets . . . . .</b>	<b>\$ 24,529</b>	<b>\$ 6,533,812</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Private-Purpose Trust</b>	<b>Investment Trust</b>
	<b>Scholarship</b>	<b>Trust</b>
<b>Additions:</b>		
Interest . . . . .	\$ 486	\$ 92,575
Gifts and contributions. . . . .	1,000	-
Share transactions:		
Purchase of units . . . . .	-	24,350,573
Redemption of units . . . . .	-	(23,822,980)
	1,486	620,168
<b>Deductions:</b>		
Scholarships awarded . . . . .	1,400	-
Distributions paid to participants . . . . .	-	98,653
	1,400	98,653
Change in net assets . . . . .	86	521,515
<b>Net assets at beginning of year . . . . .</b>	<b>24,443</b>	<b>6,012,297</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 24,529</b>	<b>\$ 6,533,812</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Lakewood City School District (the District) is located in Cuyahoga County and includes all of the City of Lakewood Ohio. The District was established in 1854 through the consolidation of existing land areas and school districts. The District serves an area of approximately 5.05 square miles.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms. The District provides educational services as authorized by Ohio statute and/or federal guidelines.

The District ranks as the 44<sup>th</sup> largest by enrollment among the 613 public school districts in the State. It currently operates 14 instructional buildings, 1 administrative building and 1 garage. The District employs 374 non-certified and 521 certified full-time and part-time employees to provide services to approximately 6,640 students in grades K through 12 and various community groups.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activity and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

**LAKESIDE CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**A. Reporting Entity – (Continued)**

*JOINTLY GOVERNED ORGANIZATIONS*

Lakeshore Northeast Ohio Computer Association - The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau among fourteen public school districts. The primary function of LNOCA is to provide data services to the 14 member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge, dependent upon the software packages used. In fiscal year 2005, \$156,138 was paid to LNOCA by the District. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, OH 44125.

Ohio Schools Council - The Ohio Schools' Council Association (Council) is a jointly governed organization among 83 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2005, the District paid \$1,124,406 to the Council. Financial information can be obtained by contacting Dr. David Cottrell, the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

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

The District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a 12-year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**A. Reporting Entity – (Continued)**

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase 12 years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund, which are not encumbered for its share of program administrative costs.

*RELATED ORGANIZATION*

*The Lakewood Public Library* - The Lakewood Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Lakewood City District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Lakewood Public Library at 15425 Detroit Avenue, Lakewood, Ohio 44107.

*INSURANCE PURCHASING POOLS*

*Ohio Association of School Business Officials Workers' Compensation Group Rating Plan*

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school district pays an enrollment fee to the Plan to cover the costs of administering the program.

*Suburban Health Consortium*

The Suburban Health Consortium ("the Consortium") is a shared health risk pool created on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverages for their employees and the eligible dependents and designated beneficiaries of such employees. The Consortium was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. The Board of Directors shall be the governing body of the Consortium. The Board of Education of each Consortium Member shall appoint its Superintendent or such Superintendent's designee to be its representative of the Board of Directors. The officers of the Board of Directors shall consist of a Chairman, Vice-Chairman and Recording Secretary, who shall be elected at the annual meeting of the Board of Directors and serve until the next annual meeting. All of the authority of the Consortium shall be exercised by or under the direction of the Board of Directors. The Board of Directors shall also set all premiums and other amounts to be paid by the Consortium Members, and the Board of Directors shall also have the authority to waive premiums and other payments. All members of the Board of Directors shall serve without compensation.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**A. Reporting Entity – (Continued)**

The Fiscal Agent shall be the Board of Education responsible for administering the financial transactions of the Consortium (Lakewood City School District). The Fiscal Agent shall carry out the responsibilities of the Consortium Fund, enter into contracts on behalf of the Consortium as authorized by the Directors and carry out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions shall be included in the payments from such District Member to the Fiscal Agent for such benefit program. Contributions are to be submitted by each District Member, to the Fiscal Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due. It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement.

Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal. Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months' premiums at the Consortium Member's current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from the Treasurer of the Lakewood City School District (the Fiscal Agent) at 1470 Warren Road, Lakewood, Ohio 44107.

The District serves as fiscal agent and custodian of the Consortium, but is not accountable; therefore the operations of the Consortium have been excluded from the District's financial statements but the funds held on behalf of the Consortium are included as an investment trust fund.

**B. Fund Accounting**

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**B. Fund Accounting – (Continued)**

*GOVERNMENTAL FUNDS*

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

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

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

*Building Fund* - The building fund is used to account for the receipts and expenditures related to all special bond funds in the District and to account for receipts and expenditures involved in the replacement or updating of equipment essential for the instruction of students in job skills. All proceeds from the sale of bonds, notes, or certificates of indebtedness, must be paid into this fund. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's significant proprietary funds:

*Enterprise Funds* - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has two enterprise funds to account for food service operations and recreation services. These enterprise funds are considered nonmajor enterprise funds.

*Internal Service Funds* - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The District's internal service funds account for workers' compensation activities.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**B. Fund Accounting – (Continued)**

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The investment trust fund is used to account for monies held on behalf of the Suburban Health Consortium for which the District is fiscal agent. The private-purpose trust fund accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**C. Basis of Presentation and Measurement Focus – (Continued)**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. The principal operating revenues of the District's enterprise funds are sales for food services and charges for services for recreation. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. Operating expenses for the enterprise funds are personnel costs and purchased services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The investment trust fund and the private-purpose trust fund are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**D. Basis of Accounting – (Continued)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2005 is as follows:

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**E. Budgets – (Continued)**

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2005. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final appropriations for fiscal year 2005.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**F. Cash and Investments**

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

During fiscal year 2005, investments were limited to federal agency securities and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investment in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2005 amounted to \$617,051 which includes \$203,320 assigned from other District funds.

Based upon the reporting requirements of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the District is sponsoring an external investment pool. This account represents monies invested by the District on behalf of the Suburban Health Consortium as its' fiscal agent (See Note 19). During fiscal year 2005, funds were invested in federal agency securities and STAR Ohio. The Consortium's investment portfolio is presented in a separate investment trust fund.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

On fund and government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On fund financial statements, inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories consist of donated food, purchased food, and non-food supplies held for resale and are expensed when used.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$500. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized for governmental activities.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	50 - 75 years	N/A
Furniture/equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	N/A

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**J. Compensated Absences – (Continued)**

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 10 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16. The District has also recorded a liability for up to 10 days of accumulated sick leave (paid upon termination) for those employees with at least 5 years of service in the District, to the extent that those employees do not otherwise meet criteria defined above.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, property taxes unavailable for appropriation and debt service. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

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

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

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Parochial Schools**

Within the District boundaries, St. Augustine High School, St. Clement, Sts. Cyril and Methodius, St. Edward High School, St. James and St. Luke are operated through the Cleveland Catholic Diocese. Lakewood Lutheran School is also in the District. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic schools by the Treasurer of the District, as directed by the nonpublic schools. The activities of these State monies are reflected by the District in a nonmajor governmental fund for financial reporting purposes.

**P. Estimates**

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**Q. Restricted Assets**

Assets are reported as restricted assets 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. The District did not have any restricted assets at June 30, 2005.

**R. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service and charges for services for recreation and workers' compensation programs. Operating expenses are necessary costs that are incurred to provide the good or service that is the primary activity of the fund.

**S. Unamortized Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss**

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

**T. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**U. 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 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles and Prior Period Adjustment**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The prior period adjustment/restatement is required as the amount of property tax available for advance at June 30, 2004 was overstated.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 and the prior period adjustment had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 22,477,930	\$ 3,350,798	\$ 12,572,423	\$ 2,296,738	\$ 40,697,889
Tax Revenue Correction	(5,091,961)	(466,837)	-	-	\$ (5,558,798)
GASB Technical Bulletin No. 2004-2	(552,485)	-	-	(46,289)	(598,774)
Restated Fund Balances, June 30, 2004	<u>\$ 16,833,484</u>	<u>\$ 2,883,961</u>	<u>\$ 12,572,423</u>	<u>\$ 2,250,449</u>	<u>\$ 34,540,317</u>

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

**A. Change in Accounting Principles and Prior Period Adjustment – (Continued)**

In addition to the above, the prior period adjustment for tax revenue had the following effect on net assets as previously reported for the governmental activities at June 30, 2004:

	Governmental Activities
Net Assets, June 30, 2004	\$ 15,206,066
Tax Revenue Correction	<u>(5,558,798)</u>
Restated Net Assets, June 30, 2004	<u>\$ 9,647,268</u>

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

Fund balances/net assets at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	
Special Trusts	\$ 109,275
Adult Basic Education	954
Preschool Grants for Handicapped	827
Recreation	43,381

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

**C. Compliance**

The District had funds during the year that had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code 5705.41, which were correct by year-end.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statute classifies monies held by the District into three categories.

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

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**A. Cash on Hand**

At fiscal year-end, the District had \$2,335 in undeposited cash on hand, which is included on the combined balance sheet of the District as part of “Equity in Pooled Cash and Investments”.

**B. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$70,751,542. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2005, \$70,733,945 of the District’s bank balance of \$71,233,945 was exposed to custodial risk as discussed below, while \$500,000 was covered by Federal Deposit Insurance Corporation.

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

**C. Investments**

As of June 30, 2005, the District had the following investments and maturities:

Investment type	Balance at Fair Value	Investment Maturities				Total
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	
FHLB	\$ 6,958,041	\$ 3,988,030	\$2,970,011	\$ -	\$ -	6,958,041
FFCB	1,989,681	1,989,681	-	-	-	1,989,681
FHLMC DN	20,810,361	20,810,361	-	-	-	20,810,361
FNMA DN	5,988,765	5,988,765	-	-	-	5,988,765
FNMA	1,981,527	-	1,981,527	-	-	1,981,527
STAR Ohio	1,192,069	1,192,069	-	-	-	1,192,069
	<u>\$ 38,920,444</u>	<u>\$ 33,968,906</u>	<u>\$4,951,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$38,920,444</u>

The weighted average maturity of investments is .28 years.

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

*Credit Risk:* The District’s investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**C. Investments – (Continued)**

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 6,958,041	17.88
FFCB	1,989,681	5.11
FHLMC DN	20,810,361	53.47
FNMA DN	5,988,765	15.39
FNMA	1,981,527	5.09
STAR Ohio	1,192,069	3.06
	<u>\$38,920,444</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 70,751,542
Investments	38,920,444
Cash on hand	<u>2,335</u>
Total	<u>\$ 109,674,321</u>
 <u>Cash and investments per Financial Statements</u>	
Governmental activities	\$ 102,470,613
Business-type activities	540,228
Private-purpose trust funds	24,529
External investment pool	6,519,510
Agency Funds	<u>119,441</u>
Total	<u>\$ 109,674,321</u>

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 1,287,100
General	Recreation fund	<u>1,200</u>
		<u>\$ 1,288,300</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balances between governmental activities and business-type activities are reported as internal balances on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 30,000

Interfund transfers between governmental funds are eliminated on the government-wide financial statements. Net transfers between governmental activities and business-type activities are reported on the statement of activities.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. 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, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance at June 30, 2005 was \$5,346,463 in the general fund and \$490,235 in the debt service fund. These amounts have been recorded as revenue. The amounts that were available as an advance at June 30, 2004 was \$6,460,159 in the general fund and \$592,416 in the debt service fund. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deterred revenue.

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 850,214,516	95.04	\$ 862,157,090	95.55
Public Utility Personal	16,001,560	1.79	16,512,290	1.83
Tangible Personal Property	<u>28,345,579</u>	<u>3.17</u>	<u>23,673,865</u>	<u>2.62</u>
<b>Total</b>	<b><u>\$ 894,561,655</u></b>	<b><u>100.00</u></b>	<b><u>\$ 902,343,245</u></b>	<b><u>100.00</u></b>

Tax rate per \$1,000 of  
assessed valuation for:

Operations	\$ 97.93	\$ 97.93
Debt Service	3.67	8.47

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities**

Taxes - current and delinquent	\$ 46,367,277
Accounts	37,237
Intergovernmental	1,681,664
Accrued interest	482,464

**Business-Type Activities**

Accounts	35
Intergovernmental	<u>88,100</u>

Total receivables \$ 48,656,777

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year-ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 944,350	\$ 7,333,932	\$ -	\$ 8,278,282
Construction in progress	<u>2,001,614</u>	<u>66,412</u>	<u>-</u>	<u>2,068,026</u>
Total capital assets, not being depreciated	<u>2,945,964</u>	<u>7,400,344</u>	<u>-</u>	<u>10,346,308</u>
Capital assets, being depreciated:				
Land improvements	3,116,305	-	-	3,116,305
Building/improvements	26,174,405	-	-	26,174,405
Furniture/equipment	11,701,952	434,009	(110,702)	12,025,259
Vehicles	<u>1,034,971</u>	<u>134,892</u>	<u>-</u>	<u>1,169,863</u>
Total capital assets, being depreciated	<u>42,027,633</u>	<u>568,901</u>	<u>(110,702)</u>	<u>42,485,832</u>
Less: accumulated depreciation				
Land improvements	(2,235,635)	(63,839)	-	(2,299,474)
Building/improvements	(18,283,320)	(478,847)	-	(18,762,167)
Furniture/equipment	(9,081,973)	(461,339)	107,256	(9,436,056)
Vehicles	<u>(712,349)</u>	<u>(30,783)</u>	<u>-</u>	<u>(743,132)</u>
Total accumulated depreciation	<u>(30,313,277)</u>	<u>(1,034,808)</u>	<u>107,256</u>	<u>(31,240,829)</u>
Governmental activities capital assets, net	<u>\$ 14,660,320</u>	<u>\$ 6,934,437</u>	<u>\$ (3,446)</u>	<u>\$ 21,591,311</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Furniture/equipment	\$ 818,931	\$ -	\$ -	\$ 818,931
Less: accumulated depreciation	<u>(655,063)</u>	<u>(21,006)</u>	<u>-</u>	<u>(676,069)</u>
Business-type activities capital assets, net	<u>\$ 163,868</u>	<u>\$ (21,006)</u>	<u>\$ -</u>	<u>\$ 142,862</u>

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 644,789
Special	34,857
Vocational	50,061
Support Services:	
Pupil	4,823
Instructional staff	101,400
Board of education	6,889
Administration	19,956
Fiscal	10,242
Business	4,392
Operations and maintenance of plant	59,240
Pupil transportation	44,727
Central	2,096
Operation of non-instructional services	<u>51,336</u>
Total depreciation expense	<u>\$ 1,034,808</u>

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

During the current fiscal year, the District entered into a capital lease agreement for the acquisition of a school bus. In addition, during prior fiscal years, the District entered into capital lease agreements for the acquisition of school buses and computer equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of computer equipment and the school buses have been capitalized in the amount of \$858,533. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2005 fiscal year totaled \$235,966 and \$15,188, respectively. These amounts are reported as debt service payments of the general fund.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

Year Ending June 30	Amount
2006	\$ 32,450
2007	32,451
2008	32,451
2009	32,451
2010	23,247
2011	11,949
2012	11,949
Total minimum lease payment	176,948
Less: amount representing interest	(29,061)
Present value of minimum lease payments	\$ 147,887

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. General obligation bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current 9.47 (average) mill bonded debt tax levy.
  
- B. Series 2004 School Improvement Bonds  
 On July 1, 2004, the District issued \$64,999,987 in general obligation school improvement bonds. The issue is comprised of \$41,780,000 in current interest serial bonds, \$21,960,000 in current interest term bonds and \$1,259,987 in capital appreciation bonds. The proceeds of the bond issue will be used for the purpose of constructing, adding to, renovating, remodeling, furnishing, equipping and otherwise improving School District buildings and facilities and acquiring, equipping and otherwise improving real estate and interests therein for school purposes.

This bond represents the first installment of a \$93,660,000 bond issuance that was approved by the voters on March 2, 2004. The District is expected to participate in the Ohio Schools Facilities Commission Expedited Local Partnership Program. Under this program, the District will receive credit for the State's share of the first phase in determining the remaining local share of the remaining cost of the project when the District becomes eligible to participate in the Commission's Classroom Facilities Assistance program (currently expected to be in 2009).

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**B. Series 2004 School Improvement Bonds – (Continued)**

The capital appreciation bond has a par value of \$2,110,000 and matures December 1, 2013 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$1,259,987. Total accreted interest of \$65,077 has been included in the statement of activities.

**C. Series 2002 Refunding General Obligation Bonds**

On December 1, 2002, the District issued general obligation bonds (Series 2002 School Improvement Refunding Bonds) to advance refund the callable portion of the Series 1993 School Improvement General Obligation Bonds (principal \$4,385,000; interest rate 2.5%). The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$4,020,000, and capital appreciation bonds, par value \$1,150,000. The average interest rate on the current interest bonds is 2.79%. The capital appreciation bonds mature each December 1, 2012 and 2013 (effective interest 11.279%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$364,993. Total accreted interest of \$113,752 has been included in the statement of activities.

**D. Series 2001 Refunding General Obligation Bonds**

On June 14, 2001, the District issued general obligation bonds (Series 2001 School Improvement Refunding Bonds) to advance refund the callable portion of the Series 1994 School Improvement General Obligation Bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$2,875,000, and capital appreciation bonds, par value \$990,000. The average interest rate on the current interest bonds is 4.70%. The capital appreciation bonds mature each December 1, 2008 through 2010 (effective interest 14.489%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$304,996. Total accreted interest of \$226,004 has been included in the statement of activities at June 30, 2005.

**E. Series 2003 Library Improvement**

On December 1, 2003, the District issued \$12,500,000 in general obligation bonds on behalf of the Lakewood Public Library. The bonds were placed in the name of the Lakewood City School District. In accordance with Ohio Revised Code Section 3375.43 - 45, local libraries are not allowed to issue debt or levy taxes in their name, therefore, after School Board approval, the levy was placed in the name of Lakewood City School District. The District, acting as taxing authority for the Library, collects levied taxes and makes required debt service payments. The library improvement bonds are a general obligation of the District for which the full faith and credit of the District is pledged for repayment. The bonds mature on December 1, 2023 and bear an annual interest rate of 1.20% - 5.00%. The source of payment is derived from a current bonded debt tax levy.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

F. The following is a summary of the bond and loan activity for fiscal 2005:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05	Amounts due in One Year
<u>General Obligation Bonds:</u>					
Series 1986, improvement 7.875%, 12/01/06 maturity	\$ 1,890,000	\$ -	\$ (630,000)	\$ 1,260,000	\$ 630,000
Series 1994, improvement 6.902%, 12/01/15 maturity	195,000	-	(195,000)	-	-
Series 2003, library improvement 1.20 - 4.50%, 12/01/23 maturity	12,500,000	-	(200,000)	12,300,000	290,000
Series 2004, school improvement current interest bonds 2.75-5.25%, 12/01/31 maturity	-	63,740,000	-	63,740,000	2,095,000
Series 2004, school improvement capital appreciation bonds 5.55%, 12/01/13 maturity	-	1,259,987	-	1,259,987	-
Series 2004, school improvement capital appreciation bonds accreted interest	-	65,077	-	65,077	-
Series 2002, refunding current interest bonds 2.79%, 12/01/11 maturity	3,915,000	-	(440,000)	3,475,000	450,000
Series 2002, refunding capital appreciation bonds 11.279% (average effective) 12/01/12 and 13	364,993	-	-	364,993	-
Series 2002, refunding capital appreciation bonds accreted interest	63,957	49,795	-	113,752	-
Series 2001, refunding current interest bonds 4.14%, 12/01/15 maturity	2,810,000	-	(85,000)	2,725,000	295,000
Series 2001, refunding capital appreciation bonds 14.489% (average effective) 12/01/08,09, and 10 maturity	304,996	-	-	304,996	-
Series 2001, refunding capital appreciation bonds accreted interest	156,689	69,315	-	226,004	-
Total, general obligation bonds	<u>\$ 22,200,635</u>	<u>\$ 65,184,174</u>	<u>\$ (1,550,000)</u>	<u>\$ 85,834,809</u>	<u>\$ 3,760,000</u>

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**G. Future Debt Service Requirements**

Principal and interest requirements to retire general obligation bonds and refunding bonds outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2006	\$ 3,015,000	\$ 3,434,522	\$ 6,449,522
2007	3,105,000	3,408,282	6,513,282
2008	2,890,000	3,319,018	6,209,018
2009	1,695,000	3,325,405	5,020,405
2010	1,780,000	3,268,401	5,048,401
2011 - 2015	9,735,000	15,163,955	24,898,955
2016 - 2020	14,890,000	12,323,615	27,213,615
2021 - 2025	18,230,000	8,036,437	26,266,437
2026 - 2030	16,435,000	3,579,172	20,014,172
2031 - 2032	5,525,000	245,359	5,770,359
<b>Total</b>	<b>\$ 77,300,000</b>	<b>\$ 56,104,166</b>	<b>\$ 133,404,166</b>

Fiscal Year Ending June 30	Current Interest Refunding Bonds (Series 2001)			Capital Appreciation Refunding Bonds (Series 2001)		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 295,000	\$ 118,874	\$ 413,874	\$ -	\$ -	\$ -
2007	305,000	107,395	412,395	-	-	-
2008	315,000	95,069	410,069	-	-	-
2009	-	88,690	88,690	116,170	213,830	330,000
2010	-	88,690	88,690	101,006	228,994	330,000
2011 - 2015	1,425,000	308,333	1,733,333	87,820	242,180	330,000
2016	385,000	9,432	394,432	-	-	-
<b>Total</b>	<b>\$ 2,725,000</b>	<b>\$ 816,483</b>	<b>\$ 3,541,483</b>	<b>\$ 304,996</b>	<b>\$ 685,004</b>	<b>\$ 990,000</b>



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**G. Future Debt Service Requirements – (Continued)**

Fiscal Year Ending June 30	Current Interest			Capital Appreciation		
	Refunding Bonds (Series 2002)			Refunding Bonds (Series 2002)		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 450,000	\$ 104,712	\$ 554,712	\$ -	\$ -	\$ -
2007	465,000	93,837	558,837	-	-	-
2008	475,000	80,901	555,901	-	-	-
2009	495,000	65,731	560,731	-	-	-
2010	510,000	48,762	558,762	-	-	-
2011 - 2014	<u>1,080,000</u>	<u>40,545</u>	<u>1,120,545</u>	<u>364,993</u>	<u>785,007</u>	<u>1,150,000</u>
Total	<u>\$ 3,475,000</u>	<u>\$ 434,488</u>	<u>\$ 3,909,488</u>	<u>\$ 364,993</u>	<u>\$ 785,007</u>	<u>\$ 1,150,000</u>

Fiscal Year Ending June 30	Capital Appreciation		
	School Improvement Bonds (Series 2004)		
	Principal	Interest	Total
2006	\$ -	\$ -	\$ -
2007	-	-	-
2008	-	-	-
2009	-	-	-
2010	-	-	-
2011 - 2014	<u>1,259,987</u>	<u>850,103</u>	<u>2,110,090</u>
Total	<u>\$ 1,259,987</u>	<u>\$ 850,103</u>	<u>\$ 2,110,090</u>

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

	<u>Balance</u> <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/05</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences payable	\$ 6,798,485	\$ 1,449,852	\$ (1,295,907)	\$ 6,952,430	\$ 937,040
General obligation bonds payable	22,200,635	65,184,174	(1,550,000)	85,834,809	3,760,000
Notes payable	15,000,000	15,000,000	(15,000,000)	15,000,000	15,000,000
Capital lease obligation	<u>303,705</u>	<u>80,148</u>	<u>(235,966)</u>	<u>147,887</u>	<u>24,090</u>
Total governmental activities long-term liabilities	<u>\$ 44,302,825</u>	<u>\$ 81,714,174</u>	<u>\$ (18,081,873)</u>	\$ 107,935,126	<u>\$ 19,721,130</u>
Less: Unamortized deferred charge on refunding				(199,561)	
Add: Unamortized premium on refunding				<u>1,906,860</u>	
Total on statement of net assets				<u>\$ 109,642,425</u>	
<b>Business-Type Activities:</b>					
Compensated absences	<u>\$ 113,749</u>	<u>\$ -</u>	<u>\$ (8,611)</u>	<u>\$ 105,138</u>	<u>\$ 263</u>
Total business-type activities long-term liabilities	<u>\$ 113,749</u>	<u>\$ -</u>	<u>\$ (8,611)</u>	<u>\$ 105,138</u>	<u>\$ 263</u>

Compensated absences will be paid from the fund from which the employee is paid. See Note 11 for a description of the District's notes payable.

**I. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are that there is no voted debt margin remaining (including available funds of \$4,405,038) an unvoted debt margin of \$902,343.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 11 - NOTES PAYABLE**

The District had the following note activity during fiscal 2005:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/05</u>
School Improvement	4/28/2004	9/14/2004	\$15,000,000	\$ -	\$ (15,000,000)	\$ -
School Improvement	9/14/2004	9/14/2005	-	15,000,000	-	15,000,000
<b>Total</b>			<u>\$15,000,000</u>	<u>\$ 15,000,000</u>	<u>\$ (15,000,000)</u>	<u>\$ 15,000,000</u>

School Improvement Notes

On April 28, 2004, the District issued \$15,000,000 in bond anticipation notes to begin various construction projects. These notes were retired and reissued on September 14, 2004 and mature on September 14, 2005. Since these notes were financed on a long-term basis prior to the issuance of the financial statements, they will be included in the District's schedule of long-term obligations (See Note 10.H.) in accordance with FASB Statement No. 6 "Classification of Short-Term Obligations Expected to Be Refinanced".

See Note 21 for the District's note activity which occurred in fiscal year 2006.

**NOTE 12 - OTHER EMPLOYEE BENEFITS**

**Early Retirement Incentive program (ERIP)**

The District Board of Education has approved an ERIP for certified and classified employees. The Board will purchase, from STRS and SERS, respectively, additional service credit for those employees who elect to participate in the plan. Participation was open to employees who were at least 50 years old, qualified for retirement with the years purchased by the Board, and agreed to retire either at the end of fiscal year 2001 or at the end of fiscal year 2002. The enrollment period for the ERIP was between February 12, 2001 and February 16, 2001. The credit could not exceed the lesser of three years or one-fifth of each member's total Ohio service. The Board did not limit the number of employees participating in the plan in any one year. The total liability for the ERIP remaining at June 30, 2005 was \$346,691. The liability is recorded in the respective funds from which the employee was paid.

In addition, employees who elect to participate in the ERIP will receive a lump sum payment for their unused sick leave, to the extent allowed by the current labor agreement. June 30, 2001 retirees received their severance payment in September, 2004, while June 30, 2002 retirees will receive their severance in September, 2005.

**Timely Retirement Incentive Program (TRIP)**

The District Board of Education has approved a TRIP for certified and classified employees. Participation was open to employees who were at least 50 years old, qualified for retirement with the years purchased by the Board, and agreed to retire by the end of fiscal year 2005. Employees who elected to participate in the TRIP will receive a payment for their unused sick leave, to the extent allowed by the current labor agreement along with a payment of 60% of their annual salary. The payment for the TRIP is paid out over a five year period. The total liability for the TRIP at June 30, 2005 was \$726,674. The liability is recorded in the respective funds from which the employee was paid.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 13 - RISK MANAGEMENT**

**A. Property and Liability**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District contracted with Indiana Insurance Company for property, crime, and inland marine insurance coverage, the Hartford Insurance Company for boiler and machinery insurance coverage, the Ohio Schools Risk Sharing Authority for fleet insurance coverage and the Ohio School Plan for general liability insurance coverage. The Ohio School Plan was formed in conjunction with the Ohio Revised Code 2744 which allows public entities to join together for coverage purposes. The Ohio School Plan is reinsured by ACE/Tempest Re, Odyssey Re and OBE. There is no deductible for general liability and a \$2,500 deductible for error and omissions. The limitations of coverages are as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$128,774,112
Inland Marine Coverage (\$500 deductible)	99,550
Boiler and Machinery (\$1,000 per location deductible)	5,100,000
Crime Insurance (\$1,000 deductible each coverage)	Various
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists (\$1,000 deductible)	50,000
General Liability	
Per occurrence	3,000,000
Aggregate per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

**B. Worker's Compensation**

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

**C. Group Health and Dental Insurance**

For fiscal 2005, the District was a participant in the Suburban Health Consortium (the "Consortium") to provide employee health, dental, vision and prescription drug benefits. The Consortium is administered by Medical Mutual. Payments are made to the Consortium for the monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the Consortium is the Lakewood City School District. The Treasurer of the Lakewood City School District pays monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges. The entire risk of loss transfers to the Consortium upon payment of the premiums.

**LAKESIDE CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**C. Group Health and Dental Insurance – (Continued)**

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

	Board Share of Premium			
	Full-Time Family	Part-Time Family	Full-Time Single	Part-Time Single
	Health:			
Suburban Health Consortium	\$ 591.83	\$ 295.92	\$ 249.19	\$ 124.60
Kaiser (HMO)	562.24	281.12	236.73	118.37
Prescription drug	173.59	86.80	73.09	36.55
Dental	77.32	38.66	29.85	14.93
Vision	9.40	4.70	2.32	1.16

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

**NOTE 14 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District’s required contribution for pension obligations to SERS for fiscal years ended 2005, 2004, and 2003 were \$1,036,666, \$902,479, and \$813,285; 43.40 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**B. State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$4,290,456, \$4,104,569 and \$4,056,794; 83.09 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$50,291 made by the District and \$90,266 made by the plan members.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**B. State Teachers Retirement System (Continued)**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$330,035 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, District paid \$537,161 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 were \$178.221 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ 2,591,985
Net adjustment for revenue accruals	(1,391,322)
Net adjustment for expenditure accruals	(502,898)
Net adjustment for other sources/uses	411,398
Adjustment for encumbrances	<u>1,024,120</u>
GAAP basis	<u>\$ 2,133,283</u>



**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**C. State School Funding Decision**

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.

**NOTE 18 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2004	\$ (2,973,283)	\$ -
Current year set-aside requirement	980,031	980,031
Qualifying disbursements	<u>(1,839,670)</u>	<u>(1,329,949)</u>
Total	<u>\$ (3,832,922)</u>	<u>\$ (349,918)</u>
Balance carried forward to FY 2005	<u>\$ (3,832,922)</u>	<u>\$ -</u>

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

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 18 - STATUTORY RESERVES – (Continued)**

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

**NOTE 19 - EXTERNAL INVESTMENT POOL**

The District serves as fiscal agent for the Suburban Health Consortium (the “Consortium”) which is a legally separate entity. The District pools the moneys of the Consortium with the District’s for investment purposes. Investments are not specifically purchased in the name of the Consortium. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The Consortium is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns.

The Consortium issues stand alone financial statements. These financial statements can be obtained from the Treasurer of the Lakewood City School District (the Fiscal Agent) at 1470 Warren Road, Lakewood, Ohio 44107.

**NOTE 20 - CONTRACTUAL COMMITMENTS**

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

<u>Contractor</u>	<u>Purpose</u>	<u>Contract Awarded</u>	<u>Amount Paid Through 6/30/05</u>	<u>Contractual Commitment</u>
UPS/GPD	Architect	\$ 3,439,857	\$ (1,576,715)	\$ 1,863,142
Turner/Regency	Construction Manager	<u>3,391,785</u>	<u>(651,858)</u>	<u>2,739,927</u>
Total		<u>\$ 6,831,642</u>	<u>\$ (2,228,573)</u>	<u>\$ 4,603,069</u>

**NOTE 21 – SIGNIFICANT SUBSEQUENT EVENTS**

On September 15, 2005, the District rolled over the \$15 million school improvement note (see Note 11). The new note was issued for \$15 million and matures on September 15, 2006.

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR Pass-Through Grantor / Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
<b>Child Nutrition Cluster:</b>						
Food Distribution Program	N/A	10.550	\$0	\$91,640	\$0	\$91,640
Total Food Distribution Program			<b>\$0</b>	<b>\$91,640</b>	<b>\$0</b>	<b>\$91,640</b>
School Breakfast Program	044198 05 PU 04 044198 05 PU 05	10.553	11,061 29,586		11,061 29,586	
Total School Breakfast Program			<b>40,647</b>	<b>0</b>	<b>40,647</b>	<b>0</b>
School Lunch Program	044198 LL P4 04 044198 LL P4 05	10.555	160,798 432,678		160,798 432,678	
Total School Lunch Program			<b>593,476</b>	<b>0</b>	<b>593,476</b>	<b>0</b>
<b>Total Child Nutrition Cluster:</b>			<b>634,123</b>	<b>0</b>	<b>634,123</b>	<b>0</b>
Child Care Food Program	044198 CCMO -2004	10.558	9,214		9,214	
<b>Total CFDA</b>			<b>9,214</b>	<b>0</b>	<b>9,214</b>	<b>0</b>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>643,337</b>	<b>91,640</b>	<b>643,337</b>	<b>91,640</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
<b>Special Education Cluster:</b>						
Special Education Grants to States	044198 6B SF 04 P 044198 6B SF 05 P	84.027	33,257 1,434,683		64,470 1,516,318	
Parent / Mentor Project	044198 6B PM 03 P 044198 6B PM 04 P		0 25,000		4,105 21,411	
<b>Total CFDA</b>			<b>1,492,940</b>	<b>0</b>	<b>1,606,304</b>	<b>0</b>
Special Education - Preschool Grants	044198 PG S1 04 P 044198 PG S1 05 P 044198 PG D7 04 P	84.173	0 79,727 7,200		11,996 95,892 7,200	
<b>Total CFDA</b>			<b>86,927</b>	<b>0</b>	<b>115,088</b>	<b>0</b>
<b>Total Special Education Cluster</b>			<b>1,579,867</b>	<b>0</b>	<b>1,721,392</b>	<b>0</b>
Adult Education State Grant Program	044198 AB S1 03 C 044198 AB S1 04 044198 AB S1 04 C 044198 AB S1 05 044198 AB S2 04 044198 AB S2 04 C 044198 AB S2 05	84.002	7,000 0 100 42,370 0 0 35,480		7,000 2,649 3,421 42,370 743 1,170 32,669	0
<b>Total CFDA</b>			<b>84,950</b>	<b>0</b>	<b>90,022</b>	<b>0</b>
Title I, Part A, ESEA	044198 C1 S1 04 044198 C1 S1 05	84.010	117,102 847,205		212,682 967,242	
<b>Total CFDA</b>			<b>964,307</b>	<b>0</b>	<b>1,179,924</b>	<b>0</b>
Vocational Education Basic Grants to States	044198 20 C1 04 044198 20 C1 05 20A0-2005	84.048	10,927 161,064 19,995		35,166 157,837 3,150	
<b>Total CFDA</b>			<b>191,986</b>	<b>0</b>	<b>196,153</b>	<b>0</b>
Safe and Drug Free Schools State Grants	044198 DR S1 04 044198 DR S1 05	84.186	0 15,525		15,149 23,608	
<b>Total CFDA</b>			<b>15,525</b>	<b>0</b>	<b>38,757</b>	<b>0</b>
Innovative Educational Program Strategies	044198 C2 S1 04 044198 C2 S1 05	84.298	0 54,645		2,619 46,025	
<b>Total CFDA</b>			<b>54,645</b>	<b>0</b>	<b>48,644</b>	<b>0</b>
Technology Literacy Challenge Grant	044198 TJ S1 04 044198 TJ S1 05	84.318	13,362 2,504		0 13,478	
<b>Total CFDA</b>			<b>15,866</b>	<b>0</b>	<b>13,478</b>	<b>0</b>

**LAKEWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR Pass-Through Grantor / Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION (Continued)</u></b>						
<i>Passed Through Ohio Department of Education (Continued)</i>						
Advanced Placement Program	0111198-AVTF 05	84.330	2,080		2,080	
<b>Total CFDA</b>			<b>2,080</b>	<b>0</b>	<b>2,080</b>	<b>0</b>
Comprehensive School Reform	044198 RF S2 03	84.332	41,000		42,459	
<b>Total CFDA</b>			<b>41,000</b>	<b>0</b>	<b>42,459</b>	<b>0</b>
America's Career Resource Network Grant	044198 OE 00 04	84.346	0		3,034	
<b>Total CFDA</b>			<b>0</b>	<b>0</b>	<b>3,034</b>	<b>0</b>
Title III English Proficiency	044198 T3 S1 04	84.365	0		22,413	
	044198 T3 S1 05		139,342		136,642	
<b>Total CFDA</b>			<b>139,342</b>	<b>0</b>	<b>159,055</b>	<b>0</b>
Improving Teacher Quality	044198 TR S1 04	84.367	18,990		77,892	
	044198 TR S1 05		275,103		260,935	
<b>Total CFDA</b>			<b>294,093</b>	<b>0</b>	<b>338,827</b>	<b>0</b>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>			<b>3,383,661</b>	<b>0</b>	<b>3,833,825</b>	<b>0</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through the Ohio Department of Mental Retardation &amp; Development Disabilities:</i>						
Medical Assistance - Medicaid Title XIX	N/A	93.778	725,473		725,473	
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>725,473</b>	<b>0</b>	<b>725,473</b>	<b>0</b>
<b><u>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>						
<i>Passed through City of Lakewood</i>						
<b>Community Development Block Grant</b>						
Camp Can Do and Satisfaction through Opportunity Program (S.T.O.P.)	B 03 MC39 0007	14.218	1,720		1,720	
			<b>1,720</b>	<b>0</b>	<b>1,720</b>	<b>0</b>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$4,754,192</b>	<b>\$91,640</b>	<b>\$5,204,355</b>	<b>\$91,640</b>

The accompanying notes are an integral part of this schedule.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2005**

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

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (Schedule) summarizes the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION PROGRAM**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Values may change from month to month and are entirely subjective. At June 30, 2005, the District had no significant food commodities in inventory.

**NOTE C – NATIONAL SCHOOL BREAKFAST, LUNCH, AND CHILD CARE FOOD PROGRAM**

Federal monies received by the District for these programs are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

N/A – Not Applicable.

CFDA – Catalog of Federal Domestic Assistance.

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## 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*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lakewood City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 19, 2006, wherein we noted the District restated tax revenues. 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*. We did not audit the financial statements of the Investment Trust Fund, which represents 51% of assets of the aggregate remaining fund information. Other auditors audited those financial statements. They have furnished their report thereon to us, and we base our opinion, insofar as it relates to the amounts included for the Investment Trust Fund on the report of the other auditors.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 19, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated May 19, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

**Betty Montgomery**  
Auditor of State

May 19, 2006





## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of the Lakewood City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures as 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 Lakewood City School District, Cuyahoga County, Ohio, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

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

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

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

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

**Betty Montgomery**  
Auditor of State

May 19, 2006

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Improving Teacher Quality – CFDA #84.367 Title I, Part A, ESEA – CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**FINDING NUMBER 2005-001**

**Expenditures Plus Encumbrances Exceeding Appropriations**

**Ohio Rev. Code Section 5705.41 (B)** prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the District may not exceed appropriations at the legal level of control for all funds. The District's legal level of control is the fund level. The following funds, which were corrected by year end, had final expenditures plus encumbrances exceeding authorized appropriations at the legal level of control during the year:

LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)

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

**FINDING NUMBER 2005-001  
(Continued)**

**Expenditures Plus Encumbrances Exceeding Appropriations (Continued)**

**April 30, 2005**

<b>Fund/Department/Detail Object</b>	<b>Appropriations</b>	<b>Expenditures Plus Encumbrances</b>	<b>Variance</b>
Title VI-B Special Education Fund (516)	\$1,112,439	\$1,335,509	(\$223,070)
Bond Retirement (002)	15,338,959	18,381,700	(3,042,741)

We recommend the District verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirement.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Ohio Rev. Code Sections 5705.41 (B)&(D), expenditures plus encumbrances in excess of appropriations.	No	Not corrected. Re-issued as 2005-001.
2004-002	Ohio Rev. Code Section 5705.10, negative fund balances	No	Reissued as management letter comment.





**Mary Taylor, CPA**  
Auditor of State

LAKWOOD CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 18, 2007