

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT

Audit Report

For the Year Ended June 30, 2003

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

Board of Education
South Euclid-Lyndhurst City School District

We have reviewed the Independent Auditor's Report of the South Euclid-Lyndhurst City School District, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The South Euclid-Lyndhurst City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 6, 2004

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SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT
Audit Report
For the Year Ended June 30, 2003

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REPORT OF INDEPENDENT ACCOUNTANTS

**Board of Education
South Euclid – Lyndhurst City School District
Lyndhurst, Ohio**

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the South Euclid – Lyndhurst City School District, Cuyahoga County, Ohio, (the District), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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 South Euclid – Lyndhurst City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary position for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and Interpretation No. 6.

Management’s Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the South Euclid – Lyndhurst City School District taken as a whole. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as 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. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
March 11, 2004

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of South Euclid-Lyndhurst 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, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

Overall:

- For governmental activities, net assets increased \$2.28 million.
- General revenues accounted for \$48.1 million in revenue or 91 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4.7 million or 9 percent of total governmental revenues of \$52.8 million.
- The District had \$50.6 million in expenses related to governmental activities; only \$4.7 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$48.1 million were adequate to provide for these programs.
- Among major funds, the general fund had \$46.4 million in revenues and \$46.0 million in expenditures. The general fund's fund balance increased to \$5.0 million from \$4.8 million. The permanent improvement fund had revenues of \$2.1 million and expenditures of \$2.3 million. The fund balance decreased approximately \$.2 million.

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 South Euclid-Lyndhurst City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

South Euclid-Lyndhurst City School District
Cuyahoga County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
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The *Statement of Net Assets* and *Statement of Activities* provides 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 and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of South Euclid-Lyndhurst City School District, the general fund and permanent improvement fund are by far the most significant 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 2003?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 has only one kind of activity:

- 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. Due to the continuing subsidies that going to the lunchroom fund from general fund, the lunchroom operation is also being considered as governmental activities.

South Euclid-Lyndhurst City School District
Cuyahoga County
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Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 16. 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 financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the permanent improvement 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 balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, 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 governmental 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 difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

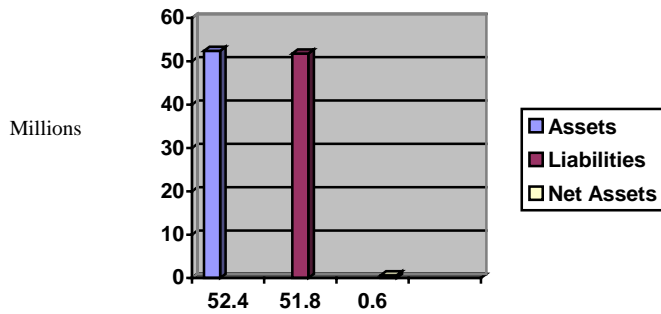
The District as a Whole

Table 1 shows net assets for fiscal year 2003. Since this is the first year the District has prepared financial statements following GASB Statement 34, net asset comparisons to prior fiscal years are not available.

South Euclid-Lyndhurst City School District
Cuyahoga County
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
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Table 1

	Governmental Activities
Assets:	
Current and Other Assets	\$ 44,966,052
Capital Asset, Net of Accumulated Depreciation	7,449,359
<i>Total Assets</i>	52,415,411
Liabilities:	
Current Liabilities	39,264,740
Long-term Liabilities	12,489,337
<i>Total Liabilities</i>	51,754,077
Net Assets:	
Invested in Capital Assets, Net of Debt	(3,630,641)
Restricted	(278,560)
Unrestricted	4,570,535
<i>Total Net Assets</i>	\$ 661,334



South Euclid-Lyndhurst City School District
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The table below shows the net changes in net assets for fiscal year 2003. Since this is the first year the District has prepared the financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available.

Table 2

	Governmental Activities
Revenue:	
Program Revenues:	
Charges for Services and Sales	\$ 1,717,239
Operating Grants and Contributions	2,671,957
Capital Grants and Contributions	322,617
General Revenues:	
Property Taxes	36,247,977
Grants and Entitlements	11,835,477
Investment Earnings	143,055
Miscellaneous	36,299
Gain on the Sale of Capital Assets	1,000
Net Transfers	(140,975)
Total Revenues	52,834,646
Expenses:	
Instructions:	
Regular	20,126,342
Special	5,731,239
Vocational	1,159,464
Other	546,040
Support Services:	
Pupils	2,932,804
Instructional Staff	2,199,536
Board of Education	130,275
Administration	2,730,870
Fiscal	1,093,319
Business	318,251
Operation and Maintenance of Plant	6,704,847
Pupil Transportation	2,739,350
Central	1,276,514
Operation of Non-instructional Services	1,321,419
Extracurricular Activities	866,583
Interest and Fiscal Charges	680,724
Total Expenses	50,557,577
Changes in Net Assets	\$ 2,277,069

South Euclid-Lyndhurst City School District
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The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

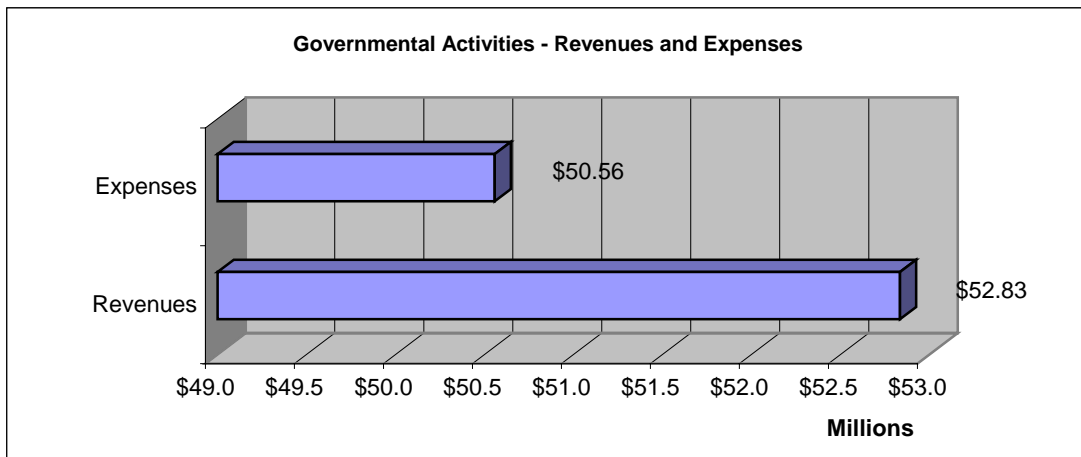
Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 68.6 percent of revenue for governmental activities for South Euclid-Lyndhurst City School District in fiscal year 2003, a slight increase from prior years.

Governmental Activities

Net assets of the District's governmental activities increased by \$2,277,069. The governmental expenses of \$50,557,577 were primarily offset by program revenues of \$4,711,813, general revenues of \$48,122,833 and prior year cash balances. Program revenues supported 9.3% of the total governmental activities.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 91.0% of total governmental revenue.

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2003.



South Euclid-Lyndhurst City School District
Cuyahoga County
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The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3

Total and Cost of Program Services
Governmental Activities

	Total Cost of Service	Net Cost of Service
Instruction	\$ 27,563,085	\$ (25,445,700)
Support Service:		
Pupils and Instructional Staff	5,132,340	(4,674,519)
Board of Education, Administration, Fiscal and Business	4,272,715	(4,030,977)
Operation and Maintenance of Plant	6,704,847	(6,446,777)
Pupil Transportation	2,739,350	(2,739,350)
Central	1,276,514	(1,227,705)
Operation of Non-instructional Services	1,321,419	172,175
Extracurricular Activities	866,583	(772,187)
Interest and Fiscal Charges	680,724	(680,724)
Total Expenses	<u>\$ 50,557,577</u>	<u>\$ (45,845,764)</u>

The dependence upon general tax revenues for governmental activities is apparent. Over 92 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue and prior year cash balances support all the remaining expenses as shown in the above table. The community, as a whole, is by far the primary support for South Euclid-Lyndhurst City School District students.

The District's Funds

Information about the District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$52.7 million and expenditures of \$52.6 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's net assets increased by \$233,308 for fiscal year 2003.

South Euclid-Lyndhurst City School District
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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 year 2003 the District amended its General Fund budget numerous times. 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, budget basis revenue was \$46.7 million, over the original budget estimate of \$44.8 million. The taxes and intergovernmental revenues make up the \$1.9 million difference. These two revenue line items fluctuate year to year and are budgeted on a conservative basis to avoid revenue overestimations.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$45.9 million, \$1.0 million below revenues.

Capital Assets and Debt Administration

At the end of fiscal year 2003, the District had negative \$3.6 million (net) invested in land, construction in progress, buildings, equipment and vehicles in governmental activities. This is because the debt and depreciation on these assets exceeds the historical cost of the assets themselves.

Table 4 shows fiscal 2003 net capital asset balances for governmental type activities compared to the prior fiscal year.

Table 4

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2003	2002
Land	\$ 732,624	\$ 714,309
Buildings and Improvements	4,359,936	2,654,254
Furniture/Equipment/Fixtures	1,498,002	1,552,363
Vehicles	858,797	830,251
Total Capital Assets, Net	\$ 7,449,359	\$ 5,751,177

South Euclid-Lyndhurst City School District
Cuyahoga County
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The increase in capital assets is due to \$932,687 in depreciation expense for 2003, offset by \$2,630,869 in acquisitions. These acquisitions were distributed among land, buildings, furniture, equipment and vehicles. The District continued its ongoing commitment to maintaining and improving its capital assets.

Set-Aside Requirements

For fiscal year 1999, a change in Ohio law required school districts to set aside two percent of certain revenues for capital improvements and an additional two-percent for textbooks; this amount was increased to three percent beginning in fiscal year 2000. For fiscal year 2003, this amounted to \$598,819 for each set aside. For fiscal year 2003, the District spent more than the set-aside amounts for textbooks and capital improvement. Therefore, no cash balance is carried forward for the next fiscal year.

Debt

At June 30, 2003, the District had \$11,080,000 in general obligation bonds outstanding. Of this total, \$465,000 is due within one year and \$10,615,000 is due in more than one year.

Current Financial Related Activities

As the preceding information shows, the District heavily depends on its property taxpayers. Presumably, the District expects to be on the ballot sometime in calendar year 2004 to maintain current staff and programming levels.

Declining state foundation payments due to increased property valuations provide no significant increase in future revenues. This decline is due to the increasing valuation charge-offs in determining state foundation payments. The increases in property tax revenues are almost offset to decreases in state foundation payments. With its major sources of revenue not keeping pace with expenditure increases, the District must seek additional tax revenues to continue current operations. However, the District cannot look to the State of Ohio for increased revenue.

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

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

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

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, 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 Paul Pestello, Treasurer at South Euclid-Lyndhurst City School District, 5044 Mayfield Road, Lyndhurst, Ohio 44124.

South Euclid Lyndhurst City School District

Statement of Net Assets

June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Investments	\$ 5,321,051	\$ 85,910	\$ 5,406,961
Receivables:			
Taxes	39,457,633	0	39,457,633
Accounts	11,411	0	11,411
Internal Balances	28,500	(28,500)	0
Accrued Interest	6,757	0	6,757
Intergovernmental	116,323	24,181	140,504
Inventory	24,377	10,299	34,676
Nondepreciable Capital Assets	732,624	0	732,624
Depreciable Capital Assets (Net)	6,716,735	89,328	6,806,063
<i>Total Assets</i>	<u>52,415,411</u>	<u>181,218</u>	<u>52,596,629</u>
Liabilities			
Accounts Payable	380,880	48,356	429,236
Accrued Wages and Benefits	3,149,942	3,923	3,153,865
Intergovernmental Payable	1,413,483	14,436	1,427,919
Deferred Revenue	32,070,435	0	32,070,435
Notes Payable	2,250,000	0	2,250,000
Long Term Liabilities:			
Due Within One Year	754,010	0	754,010
Due In More Than One Year	11,735,327	6,116	11,741,443
<i>Total Liabilities</i>	<u>51,754,077</u>	<u>72,831</u>	<u>51,826,908</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	(3,630,641)	89,328	(3,541,313)
Restricted for:			
Capital Projects	(1,572,516)	0	(1,572,516)
Debt Service	511,865	0	511,865
Other Purposes	782,091	0	782,091
Unrestricted	4,570,535	19,059	4,589,594
<i>Total Net Assets</i>	<u>\$ 661,334</u>	<u>\$ 108,387</u>	<u>\$ 769,721</u>

See accompanying notes to the basic financial statements.

South Euclid Lyndhurst City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 20,126,342	\$ 1,294,544	\$ 268,310	\$ 64,547
Special	5,731,239	217	489,767	0
Vocational	1,159,464	0	0	0
Other	546,040	0	0	0
Support services:				
Pupils	2,932,804	0	199,437	0
Instructional staff	2,199,536	0	258,384	0
Board of education	130,275	0	0	0
Administration	2,730,870	2,514	239,224	0
Fiscal	1,093,319	0	0	0
Business	318,251	0	0	0
Operation and maintenance of plant	6,704,847	0	0	258,070
Pupil transportation	2,739,350	0	0	0
Central	1,276,514	0	48,809	0
Operation of non-instructional services	1,321,419	325,568	1,168,026	0
Extracurricular activities	866,583	94,396	0	0
Interest and fiscal charges	680,724	0	0	0
<i>Total Governmental Activities</i>	<u>50,557,577</u>	<u>1,717,239</u>	<u>2,671,957</u>	<u>322,617</u>
Business-Type Activities				
Food service	1,255,613	901,591	277,966	0
Uniform school supplies	62,444	32,870	0	0
Adult education	194,496	111,976	0	0
Stadium	0	4,237	0	0
<i>Total Business-Type Activities</i>	<u>1,512,553</u>	<u>1,050,674</u>	<u>277,966</u>	<u>0</u>
<i>Totals</i>	<u>\$ 52,070,130</u>	<u>\$ 2,767,913</u>	<u>\$ 2,949,923</u>	<u>\$ 322,617</u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Gain on Sale of Capital Assets

Net Transfers

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Restated, See Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (18,498,941)	\$ 0	\$ (18,498,941)
(5,241,255)	0	(5,241,255)
(1,159,464)	0	(1,159,464)
(546,040)	0	(546,040)
(2,733,367)	0	(2,733,367)
(1,941,152)	0	(1,941,152)
(130,275)	0	(130,275)
(2,489,132)	0	(2,489,132)
(1,093,319)	0	(1,093,319)
(318,251)	0	(318,251)
(6,446,777)	0	(6,446,777)
(2,739,350)	0	(2,739,350)
(1,227,705)	0	(1,227,705)
172,175	0	172,175
(772,187)	0	(772,187)
(680,724)	0	(680,724)
<u>(45,845,764)</u>	<u>0</u>	<u>(45,845,764)</u>
0	(76,056)	(76,056)
0	(29,574)	(29,574)
0	(82,520)	(82,520)
0	4,237	4,237
<u>0</u>	<u>(183,913)</u>	<u>(183,913)</u>
<u>(45,845,764)</u>	<u>(183,913)</u>	<u>(46,029,677)</u>
33,130,651	0	33,130,651
1,087,439	0	1,087,439
2,029,887	0	2,029,887
11,835,477	4,400	11,839,877
143,055	310	143,365
36,299	0	36,299
1,000	0	1,000
(140,975)	123,000	(17,975)
48,122,833	127,710	48,250,543
2,277,069	(56,203)	2,220,866
(1,615,735)	164,590	(1,451,145)
<u>\$ 661,334</u>	<u>\$ 108,387</u>	<u>\$ 769,721</u>

South Euclid-Lyndhurst City School District

Balance Sheet

Governmental Funds

June 30, 2003

	General	Permanent Improvement Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 2,990,730	\$ 127,930	\$ 1,635,724	\$ 4,754,384
Cash and Cash Equivalents:				
Restricted Cash	534,739	0	0	534,739
Receivables:				
Taxes	36,285,380	2,059,313	1,112,940	39,457,633
Accounts	11,411	0	0	11,411
Interfund	38,500	0	0	38,500
Accrued Interest	6,469	0	288	6,757
Intergovernmental	45,628	0	70,695	116,323
Inventory	24,377	0	0	24,377
<i>Total Assets</i>	<u>\$ 39,937,234</u>	<u>\$ 2,187,243</u>	<u>\$ 2,819,647</u>	<u>\$ 44,944,124</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	211,757	59,267	109,856	\$ 380,880
Accrued Wages and Benefits	3,076,151	0	73,791	3,149,942
Interfund Payable	0	0	10,000	10,000
Intergovernmental Payable	822,493	0	22,268	844,761
Deferred Revenue	30,782,186	1,722,137	947,446	33,451,769
Notes Payable	0	0	2,250,000	2,250,000
<i>Total Liabilities</i>	34,892,587	1,781,404	3,413,361	40,087,352
Fund Balances				
Fund Balance:				
Reserved for Encumbrances	462,596	60,337	212,590	735,523
Reserved for Inventory	24,377	0	0	24,377
Reserved for Tax Revenue Unavailable for Appropriation	5,503,194	337,176	180,630	6,021,000
Reserved for Budget	534,739	0	0	534,739
Unreserved:				
Undesignated, Unreserved Reported in:				
General Fund	(1,480,259)	0	0	(1,480,259)
Special Revenue Funds	0	0	740,169	740,169
Debt Service Fund	0	0	292,699	292,699
Capital Projects Funds	0	8,326	(2,019,802)	(2,011,476)
<i>Total Fund Balances</i>	<u>5,044,647</u>	<u>405,839</u>	<u>(593,714)</u>	<u>4,856,772</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 39,937,234</u>	<u>\$ 2,187,243</u>	<u>\$ 2,819,647</u>	<u>\$ 44,944,124</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets Governmental Activities
 June 30, 2003*

Total Governmental Fund Balances		\$	4,856,772
 <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			7,449,359
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Grants	15,136		
Delinquent Property Taxes	1,366,198		1,381,334
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.			31,928
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	(11,080,000)		
Compensated Absences	(1,409,337)		
Intergovernmental Payable	(568,722)		(13,058,059)
Net Assets of Governmental Activities		<u>\$</u>	<u>661,334</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 33,148,109	\$ 1,869,446	\$ 1,015,497	\$ 36,033,052
Intergovernmental	11,695,380	258,070	2,862,157	14,815,607
Investment income	138,596	0	4,459	143,055
Tuition and fees	1,073,589	0	112,187	1,185,776
Extracurricular activities	0	0	140,194	140,194
Rentals	325,568	0	0	325,568
Charges for services	0	0	8,493	8,493
Gifts and donations	0	0	62,250	62,250
Miscellaneous	30,686	0	1,227	31,913
<i>Total Revenues</i>	46,411,928	2,127,516	4,206,464	52,745,908
Expenditures:				
Current:				
Instruction:				
Regular	19,271,232	16,721	432,232	19,720,185
Special	5,130,078	0	464,033	5,594,111
Vocational	1,137,138	0	0	1,137,138
Other	546,040	0	0	546,040
Support services:				
Pupils	2,655,947	0	227,041	2,882,988
Instructional staff	1,895,271	37,077	230,414	2,162,762
Board of education	139,771	0	0	139,771
Administration	2,973,932	15,128	230,799	3,219,859
Fiscal	1,102,972	0	0	1,102,972
Business	347,417	0	0	347,417
Operation and maintenance of plant	6,483,477	392,736	0	6,876,213
Pupil transportation	2,513,418	220,856	0	2,734,274
Central	1,035,122	349,991	47,419	1,432,532
Operation of non-instructional services	54,249	19,080	1,241,085	1,314,414
Extracurricular activities	692,581	0	138,189	830,770
Capital outlay	0	1,249,148	33,714	1,282,862
Debt service:				
Principal retirement	0	0	575,000	575,000
Interest and fiscal charges	0	0	680,724	680,724
<i>Total Expenditures</i>	45,978,645	2,300,737	4,300,650	52,580,032
<i>Excess of Revenues Over (Under) Expenditures</i>	433,283	(173,221)	(94,186)	165,876
Other Financing Sources (Uses):				
Proceeds from sales of fixed assets	1,000	0	0	1,000
Transfers in	0	0	60,000	60,000
Transfers out	(200,975)	0	0	(200,975)
<i>Total other financing sources and (uses)</i>	(199,975)	0	60,000	(139,975)
<i>Net change in fund balance</i>	233,308	(173,221)	(34,186)	25,901
<i>Fund balance (deficit) at beginning of year</i>	4,811,339	579,060	(559,528)	4,830,871
<i>Fund balance (deficit) at end of year</i>	\$ 5,044,647	\$ 405,839	\$ (593,714)	\$ 4,856,772

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	25,901
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Fixed Asset Additions	2,630,869	
Current Year Depreciation	<u>(932,687)</u>	1,698,182
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		
Grants	9,401	
Taxes	1,308,762	
Delinquent Property Taxes	<u>214,925</u>	1,533,088
 Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal	<u>575,000</u>	575,000
 Some expenses reported in the statement of net activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(1,429,508)	
Pension Obligation	<u>(129,980)</u>	(1,559,488)
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.		
		<u>4,386</u>
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>2,277,069</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2003*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 32,612,900	\$ 33,296,924	\$ 33,490,859	\$ 193,935
Intergovernmental	10,462,608	11,638,962	11,638,962	0
Investment Income	150,000	132,127	132,127	0
Tuition and Fees	1,171,300	1,274,342	1,342,345	68,003
Rentals	325,568	325,568	325,568	0
Miscellaneous	77,824	20,676	22,439	1,763
<i>Total Revenues</i>	<u>44,800,200</u>	<u>46,688,599</u>	<u>46,952,300</u>	<u>263,701</u>
Expenditures:				
Current				
Instruction	25,634,156	25,772,376	25,610,283	162,093
Support Services				
Pupils	2,766,799	2,691,359	2,675,097	16,262
Instructional Staff	1,928,663	1,904,722	1,871,535	33,187
	152,066	174,066	162,586	11,480
Administration	3,076,545	3,103,150	3,075,038	28,112
Fiscal	1,064,671	1,154,671	1,145,213	9,458
Business	354,546	370,046	345,232	24,814
Operation and Maintenance of Plant	6,544,289	6,681,564	6,616,772	64,792
Pupil Transportation	2,414,268	2,621,768	2,557,614	64,154
Central	1,108,957	1,126,203	1,120,977	5,226
Operation of Non-Instructional Services	41,600	54,600	54,249	351
Extracurricular Activities	704,967	706,167	693,397	12,770
<i>Total Expenditures</i>	<u>45,791,527</u>	<u>46,360,692</u>	<u>45,927,993</u>	<u>432,699</u>
Excess of Revenues Over (Under) Expenditures	(991,327)	327,907	1,024,307	696,400
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	2,000	1,000	1,000	0
Refund of Prior Year Expenditures	1,000	65,025	68,412	3,387
Refund of Prior Year Receipts	(1,000)	(1,000)	0	1,000
Advances In	7,400	7,400	7,400	0
Advances Out	(5,000)	(40,000)	(38,500)	1,500
Transfers Out	(400,000)	(230,000)	(200,975)	29,025
<i>Total Other Financing Sources (Uses)</i>	<u>(395,600)</u>	<u>(197,575)</u>	<u>(162,663)</u>	<u>34,912</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,386,927)	130,332	861,644	731,312
<i>Fund Balance (Deficit) at Beginning of Year</i>	1,857,748	1,857,748	1,857,748	0
Prior Year Encumbrances Appropriated	581,248	581,248	581,248	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,052,069</u>	<u>\$ 2,569,328</u>	<u>\$ 3,300,640</u>	<u>\$ 731,312</u>

See accompanying notes to the basic financial statements.

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South Euclid-Lyndhurst City School District

Statement of Net Assets

Proprietary Funds

June 30, 2003

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
Assets		
Current Assets:		
Equity in Pooled Cash and Investments	\$ 85,910	\$ 31,928
Intergovernmental Receivable	24,181	0
Inventory	10,299	0
<i>Total Current Assets</i>	120,390	31,928
Noncurrent Assets:		
Depreciable Capital Assets (Net)	89,328	0
<i>Total Assets</i>	209,718	31,928
Liabilities		
Current Liabilities:		
Accounts Payable	48,356	0
Accrued Wages and Benefits	3,923	0
Interfund Payable	28,500	0
Intergovernmental Payable	14,436	0
<i>Total Current Liabilities</i>	95,215	0
Long Term Liabilities:		
Compensated Absences	6,116	0
<i>Total Liabilities</i>	101,331	0
Net Assets		
Invested in Capital Assets, Net of Related Debt	89,328	0
Unrestricted	19,059	31,928
<i>Total Net Assets</i>	\$ 108,387	\$ 31,928

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Statement of Revenues, Expenditures and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
Operating Revenues:		
Tuition	\$ 64,317	\$ 0
Sales	982,120	42,914
Charges for services	4,237	89,783
Other operating revenues	0	1,666
<i>Total Operating Revenues</i>	<u>1,050,674</u>	<u>134,363</u>
Operating Expenses:		
Salaries	478,927	0
Fringe benefits	187,408	0
Purchased services	615,979	129,813
Materials and supplies	225,579	164
Depreciation	925	0
Claims	3,735	0
<i>Total Operating Expenses</i>	<u>1,512,553</u>	<u>129,977</u>
Operating income (loss)	<u>(461,879)</u>	<u>4,386</u>
Non-Operating Revenues (Expenses):		
Federal donated commodities	47,803	0
Operating grants	230,163	0
Contributions and donations	4,400	0
Interest	310	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>282,676</u>	<u>0</u>
<i>Income (Loss) Before Operating Transfers</i>	(179,203)	4,386
Transfers in	<u>123,000</u>	<u>0</u>
<i>Change in Net Assets</i>	(56,203)	4,386
<i>Net Assets (Deficit) Beginning of Year (Restated, See Note 3)</i>	<u>164,590</u>	<u>27,542</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$ 108,387</u>	<u>\$ 31,928</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities:		
Cash Received from Customers	\$ 1,089,254	\$ 134,363
Cash Paid for Goods and Services	(795,514)	(131,404)
Cash Paid to Employees	(664,216)	0
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>(370,476)</u>	<u>2,959</u>
Cash Flows From Non-Capital Financing Activities:		
Grants	230,163	0
Transfers In	123,000	0
Advances In	28,500	0
Advances Out	0	(850)
Contributions and Donations	4,400	0
<i>Net Cash Provided By (Used For) Non-Capital Activities</i>	<u>386,063</u>	<u>(850)</u>
Cash Flows From Investing Activities:		
Interest on Investments	310	0
<i>Net Cash Provided By (Used For) Investing Activities</i>	<u>310</u>	<u>0</u>
Cash Flows From Capital and Related Activities:		
Payment for Capital Acquisitions	(18,499)	0
<i>Net Cash Provided By (Used For) Capital and Related Financing Activities</i>	<u>(18,499)</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(2,602)	2,109
<i>Cash and Cash Equivalents at Beginning of Year</i>	88,512	29,819
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 85,910</u>	<u>\$ 31,928</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	\$ (461,879)	\$ 4,386
Adjustments:		
Depreciation	925	0
Federal Donated Commodities	47,803	0
(Increase) Decrease in Assets		
Accounts Receivable	38,580	0
Inventory	11,033	0
Increase (Decrease) in Liabilities		
Accounts Payable	(463)	(1,427)
Accrued Wages and Benefits	1,665	0
Compensated Absences Payable	454	0
Due to Other Governments	(1,042)	0
Deferred Revenue	(7,552)	0
<i>Total Adjustments</i>	<u>91,403</u>	<u>(1,427)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>\$ (370,476)</u>	<u>\$ 2,959</u>

See accompanying notes to the basic financial statements.

South Euclid-Lyndhurst City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	\$ 655,469
Accounts Receivable	<u>12</u>

<i>Total Assets</i>	<u><u>\$ 655,481</u></u>
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Liabilities

Undistributed Monies	\$ 559,368
Due to Students	<u>96,113</u>

<i>Total Liabilities</i>	<u><u>\$ 655,481</u></u>
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See accompanying notes to the basic financial statements.

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South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

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

The School District is governed by a locally-elected five-member Board of Education (Board) and provides educational services as mandated by state and/or federal agencies. This Board controls the School District's instructional/support facilities which are staffed by 284 classified and 388 certificated personnel who provide services to students and other community members.

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

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

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

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

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

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

Jointly Governed Organizations:

Lakeshore Northeast Ohio Computer Association (LNOCA)
Ohio Schools Council

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Joint Venture:

South Euclid-Lyndhurst Recreation Commission (SELREC)

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

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

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. Fund Accounting

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

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

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

Permanent Improvement Capital Projects Fund The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

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

Proprietary Fund Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The following are the School District's proprietary fund types:

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District has no major enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a rotary fund.

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources 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 School District finances and meets the cash flow needs of its proprietary fund activities.

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

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

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

F. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to STAROhio, (the State Treasurer's Investment Pool), money market accounts and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003. Certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$138,596, which includes \$62,268 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. At June 30, 2003, there were no prepaid items.

H. Inventory

On the 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.

On the fund financial statements, inventories of governmental funds are stated at cost while 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. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the enterprise fund are expensed when used.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

I. Restricted Assets

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

J. 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. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land 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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land	N/A	N/A
Buildings and Improvements	10 - 40 Years	N/A
Furniture and Fixtures	5 - 20 Years	20 Years
Vehicles	13 Years	N/A
Textbooks	5 Years	N/A

K. Interfund Balances

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

L. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. 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, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

N. Net Assets

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

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

O. Fund Balance Reserves

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

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition for adult education classes, sales for food service and uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds received no capital contributions during the current fiscal year.

R. 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.

S. 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 2003.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

T. Estimates

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

Note 3 – Change in Accounting Principles and Restatement of Fund Balances/Net Assets

Changes in Accounting Principles For fiscal year 2003, the School District has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District’s programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by elimination of the internal service fund and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Restatement of Fund Balance The following describes the transition from governmental fund balances to net assets of the governmental activities.

	<u>General</u>	<u>Permanent Improvement Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2002	\$ 6,912,103	\$ 676,434	\$ (506,605)	\$ 7,081,932
Prior Period Adjustment-Taxes	<u>\$ (2,100,764)</u>	<u>\$ (97,374)</u>	<u>\$ (52,923)</u>	<u>\$ (2,251,061)</u>
	<u>\$ 4,811,339</u>	<u>\$ 579,060</u>	<u>\$ (559,528)</u>	<u>\$ 4,830,871</u>
GASB 34 Adjustments:				
Capital Assets				5,751,177
Compensated Absences				(1,288,591)
Internal Service Fund				27,542
Pension Obligations				(438,742)
Long-Term (Deferred) Assets				1,157,008
Long-Term Liabilities				<u>(11,655,000)</u>
Governmental Activities Net Assets, June 30, 2002				<u>\$ (1,615,735)</u>

A valuation of the capital assets was done which resulted in changes. Changes in the capital assets of the governmental activities are as follows:

	<u>Capital Assets 6/30/02</u>	<u>Adjustment</u>	<u>Restated Capital Assets 6/30/02</u>
Land	\$ 1,308,154	(593,845)	\$ 714,309
Building and Improvements	19,050,677	(4,691,341)	14,359,336
Furniture and Equipment	9,620,981	(4,828,119)	4,792,862
Vehicles	<u>2,334,299</u>	<u>9,116</u>	<u>2,343,415</u>
Total	<u>\$ 32,314,111</u>	<u>\$ (10,104,189)</u>	<u>\$ 22,209,922</u>

Changes in the capital assets of the business-type activities are as follows:

	<u>Business-Type Activities</u>
Capital Assets June 30, 2002	\$ 172,196
Reduction in Assets	<u>(100,442)</u>
Restated Capital Assets June 30, 2002	<u>\$ 71,754</u>

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 4 - Accountability

Fund Balances at June 30, 2003 included the following individual fund deficits:

	Deficit <u>Fund Balance</u>
Alternative School	\$ 5,759
Title II-A	479
Building Fund	2,051,646

The above fund deficits were caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).
4. Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ 233,308
Net Adjustment for Revenue Accruals	618,784
Advance In	7,400
Net Adjustment for Expenditure Accruals	631,104
Advance Out	(38,500)
Adjustment for Encumbrances	<u>(590,452)</u>
Budget Basis	<u>\$ 861,644</u>

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial 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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$(918,356) and the bank balance was \$74,328, all of which was covered by federal depository insurance. The negative carrying value is due to short-term investments that are converted to cash when needed.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Investments GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Value</u>	<u>Fair Value</u>
STAROhio	<u>\$ 6,980,786</u>	<u>\$ 6,980,786</u>

Note 7 – Property Taxes

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

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Cuyahoga County Auditor reappraises real property every six years with a triennial update, which was last completed for 2000. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Cuyahoga County, real property taxes are billed semi-annually, one year in arrears. The tax rate applied to real property collected in 2002 before certain homestead and rollback reductions, which reductions are reimbursed to the School District by the State of Ohio, amounted to \$89.80 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$46.63 per \$1,000 of assessed valuation for residential and agricultural real property, and \$50.13 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2002 was \$89.80 per \$1,000 of valuation.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The property valuation consisted of:

	<u>2002</u>	<u>2001</u>
Real Property		
Residential/Agricultural	\$ 621,002,750	\$ 621,045,380
Commercial/Industrial	145,819,840	143,282,210
Tangible Personal Property		
General	30,326,951	29,859,444
Public Utilities	<u>14,954,600</u>	<u>15,535,810</u>
Total	<u>\$ 812,104,141</u>	<u>\$ 809,722,844</u>

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the School District as an advance at June 30, 2003, was \$6,021,000 for all funds.

Note 8 - Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

Intergovernmental receivables consisted of \$45,628 in the general fund for tuition from other districts and operating grants in Title VI-B of \$42,171, Title I \$7,097, Title V \$9,642, Drug Free \$4,078, Idea grant \$5,918 and Title II-A \$1,789.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 6/30/02	Additions	Reductions	Balance 6/30/03
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 714,309	\$ 18,315	\$ 0	\$ 732,624
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	14,359,336	2,000,380	0	16,359,716
Furniture and Equipment	4,792,862	424,931	0	5,217,793
Vehicles	2,343,415	187,243	0	2,530,658
Total Capital Assets, being depreciated	21,495,613	2,612,554	0	24,108,167
Less Accumulated Depreciation:				
Buildings and Improvements	(11,705,082)	(294,698)	0	(11,999,780)
Furniture and Equipment	(3,240,499)	(479,292)	0	(3,719,791)
Vehicles	(1,513,164)	(158,697)	0	(1,671,861)
Total Accumulated Depreciation	(16,458,745)	(932,687)	0	(17,391,432)
Total Capital Assets being depreciated, net	5,036,868	1,679,867	0	6,716,735
Governmental Activities Capital Assets, Net	<u>\$ 5,751,177</u>	<u>\$ 1,698,182</u>	<u>\$ 0</u>	<u>\$ 7,449,359</u>
Business-Type Activities				
<i>Capital Assets being depreciated</i>				
Furniture and Equipment	\$ 486,016	\$ 18,499	\$ 0	\$ 504,515
Less Accumulated Depreciation	(414,262)	(925)	0	(415,187)
Business-Type Activities Capital Assets, Net	<u>\$ 71,754</u>	<u>\$ 17,574</u>	<u>\$ 0</u>	<u>\$ 89,328</u>

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction:	
Regular	\$ 318,790
Special	4,412
Vocational	10,411
Support Services:	
Pupils	12,297
Instructional Staff	52,776
Business	12,429
Administration	23,728
Fiscal	5,009
Operation and Maintenance of Plant	114,115
Pupil Transportaion	160,726
Operation of Non-Instructional Services	58,855
Central	64,350
Extracurricular Activities	94,789
	<u>94,789</u>
Total Governmental Activities	<u>\$ 932,687</u>
Business-Type Activities:	
Food Service Enterprise Fund	<u>\$ 925</u>

Note 10 - Risk Management

A. Property and Liability

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

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

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

The School District maintains replacement cost insurance on buildings and contents in the amount of \$87,899,660.

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. Workers' Compensation

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

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

Note 11 - Other Employee Benefits

A. Compensated Absences

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

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

B. Insurance Benefits

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

The School District provides health insurance coverage through Medical Mutual of Ohio and is subject to certain deductibles, co-pays, and maximum benefits as outlined in the plan. In order for employees to be eligible to receive health insurance coverage they must work at least twenty hours or more for classified

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

employees and at least half-time for certified employees. Per negotiated agreement, the premium is paid based on full time equivalency. If an employee is not full time, the School District pays a pro-rated share of the premium.

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

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

Note 12 - Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,194,252, \$1,064,964, and \$924,930, respectively; 49% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$614,760 represents the unpaid contribution for fiscal year 2003, and is recorded as a liability within the respective funds.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. State Teachers Retirement System

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

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% 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, 2003, plan members were required to contribute 9.3% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,971,188, \$2,936,424, and \$2,558,424 respectively; 84% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$26,242 made by the School District and \$43,326 made by the plan members. \$490,888 represents the unpaid contribution for fiscal year 2003, and is recorded as a liability within the respective funds.

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

C. Social Security System

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

Note 13 - Postemployment Benefits

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

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, 4.5% of covered payroll was allocated to the fund. For the School District, this amount equaled \$212,228 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003 the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, the health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2003, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$798,907.

The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS had approximately 50,000 participants currently receiving health care benefits.

South Euclid-Lyndhurst City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 14 - Long - Term Obligations

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

	Outstanding 6/30/02	Additions	Reductions	Outstanding 6/30/03	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1993 Bond Issue 5.21%	\$ 6,870,000	\$ 0	\$ 395,000	\$ 6,475,000	\$ 275,000
1996 Bond Issue 5.37%	<u>4,785,000</u>	<u>0</u>	<u>180,000</u>	<u>4,605,000</u>	<u>190,000</u>
Total General Obligation Bonds	11,655,000	0	575,000	11,080,000	465,000
Compensated Absences	<u>1,288,591</u>	<u>339,334</u>	<u>218,588</u>	<u>1,409,337</u>	<u>289,010</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 12,943,591</u>	<u>\$ 339,334</u>	<u>\$ 793,588</u>	<u>\$ 12,489,337</u>	<u>\$ 754,010</u>
Business-Type Activities					
Compensated Absences	<u>\$ 5,662</u>	<u>\$ 454</u>	<u>\$ 0</u>	<u>\$ 6,116</u>	<u>\$ 0</u>

Outstanding general obligation bonds consist of school building construction issues.

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the general fund and other grants, auxiliary services, Title VI-B, and Title I special revenue funds, and the food service enterprise fund.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2004	\$ 465,000	\$ 608,820
2005	490,000	586,112
2006	515,000	561,585
2007	535,000	535,200
2008	560,000	505,465
2009 - 2013	3,300,000	1,992,625
2014 - 2018	4,230,000	913,248
Thereafter	985,000	28,300
Total	<u>\$ 11,080,000</u>	<u>\$ 5,731,355</u>

Note 15 – Other Debt Obligations

The \$2,250,000 note payable in the Capital Projects Fund is a bond anticipation note issued for the purpose of paying costs of installations, modifications, and remodeling of school buildings to conserve energy and acquiring school buses. The note has a stated interest rate of 2.10% and is due December 1, 2003.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 16 – Segment Information – Enterprise Funds

The School District maintains enterprise funds to account for the operation of school food service, uniform school supplies, adult education, and stadium fund. Segment information related to these follows:

	<u>Food Services</u>	<u>Uniform Supplies</u>	<u>Adult Ed</u>	<u>Stadium</u>	<u>Total</u>
Operating revenues	\$ 901,591	32,870	111,976	4,237	\$ 1,050,674
Operating expenses					
Salaries	373,851	0	105,076	0	478,927
Fringe benefits	165,218	0	22,190	0	187,408
Purchased services	613,999	0	1,980	0	615,979
Materials and supplies	101,620	61,742	62,217	0	225,579
Depreciation	925	0	0	0	925
Other operating expense	0	702	3,033	0	3,735
Total operating expenses	<u>1,255,613</u>	<u>62,444</u>	<u>194,496</u>	<u>0</u>	<u>1,512,553</u>
Operating income (loss)	(354,022)	(29,574)	(82,520)	4,237	(461,879)
Non-operating revenues, net	278,276	0	0	4,400	282,676
Transfers in	98,000	0	25,000	0	123,000
Change in net assets	<u>\$ 22,254</u>	<u>\$ (29,574)</u>	<u>\$ (57,520)</u>	<u>\$ 8,637</u>	<u>\$ (56,203)</u>
Other information					
Net working capital	<u>\$ 62,665</u>	<u>\$ (20,308)</u>	<u>\$ 57,393</u>	<u>\$ 8,637</u>	<u>\$ 108,387</u>
Capital assets, net	<u>\$ 89,328</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 89,328</u>
Total assets	<u>\$ 135,122</u>	<u>\$ 7,692</u>	<u>\$ 58,267</u>	<u>\$ 8,637</u>	<u>\$ 209,718</u>
Total net assets	<u>\$ 62,665</u>	<u>\$ (20,308)</u>	<u>\$ 57,393</u>	<u>\$ 8,637</u>	<u>\$ 108,387</u>

Note 17 – Jointly Governed Organizations

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

South Euclid-Lyndhurst City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

its representation on the Board. Financial information can be obtained by contacting LNOCA, 7800 Wall Street, Valley View, Ohio 44104.

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. This jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Governing Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003, the School District paid \$800 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Council at 155 Center Road, Bedford, Ohio 44146.

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

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

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

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

Note 18 – Joint Venture

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

The operation of SELREC is controlled by a nine member board consisting of the following: one member appointed by the mayor of the City of South Euclid and one member appointed by the mayor of the City of Lyndhurst, three members that are residents of the City of South Euclid, three members that are residents of the City of Lyndhurst, and one member that is a resident of the School District and that lives in either the City

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

of South Euclid or the City of Lyndhurst (jointly appointed by the mayors of the Cities of South Euclid and Lyndhurst). The School District, the City of South Euclid, and the City of Lyndhurst have an ongoing financial responsibility because the continued existence of the joint venture depends on their contributions. The School District has no explicit and measurable equity interest in SELREC. Financial information may be obtained by contacting the Treasurer of the South Euclid-Lyndhurst City School District at 5044 Mayfield Road, Lyndhurst, Ohio 44124.

Note 19 – Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

Note 20 - Interfund Transfers

Transfers made during fiscal year 2003 were \$8,000 to the other grants fund, \$52,000 to the athletic/district managed fund, \$98,000 to the food service fund, \$25,000 to the adult education, and \$17,975 to the student activities fund from the general fund. These transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Note 21 - Interfund Balances

On the fund financial statements, the general fund reported an interfund receivable at June 30, 2003 of \$28,000. The uniform school supplies enterprise fund had an interfund payable of the same amount. The loan was due to the timing of collections from students.

On the fund financial statements, the general fund reported an interfund receivable at June 30, 2003 of \$500. The adult education fund had an interfund payable of the same amount. The loan was due to the timing of tuition collections.

On the fund financial statements, the general fund reported an interfund receivable at June 30, 2003 of \$10,000. The Title V special revenue fund had an interfund payable of the same amount. The loan was due to the timing of grant receipts.

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 22 - Set-Asides

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

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

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2002	\$ 534,738	\$ 0	\$ 0	\$ 534,738
Set-Aside Carryover Balance as of June 30, 2002	0	0	(441,852)	(441,852)
Current Year Set-Aside Requirement	0	598,819	598,819	1,197,638
Qualifying Disbursements	0	(3,904,609)	(923,002)	(4,827,611)
Total	<u>\$ 534,738</u>	<u>\$ (3,305,790)</u>	<u>\$ (766,035)</u>	<u>\$ (3,537,087)</u>
Cash Balance Carried Forward FY 2004	<u>\$ 534,738</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 534,738</u>
Amount to Restrict for Set-Asides				<u>\$ 534,738</u>
Total Restricted Assets				<u>\$ 534,738</u>

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

South Euclid-Lyndhurst City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 23 – 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

SOUTH EUCLID-LYNDBURST CITY SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

Federal Grantor/Program Title	Pass Through Entity Number	CFDA Number	Receipts Recognized	Program Expenditures
<u><i>U.S. Department of Agriculture</i></u>				
Passed Through the Ohio Department of Education				
Nutrition Cluster:				
Food Distribution	N/A	10.550	\$ 47,803	\$ 47,803
National School Lunch Program	050948-04-PU-03	10.555	222,371	222,371
Total Nutrition Cluster			270,174	270,174
Total U.S. Department of Agriculture			270,174	270,174
<u><i>U.S. Department of Education</i></u>				
Pass through Ohio Department of Education				
Special Education Cluster:				
Preschool Disabilities	PG-S1-02	84.173	-	2,887
Preschool Disabilities	PG-S1-03	84.173	30,436	26,734
Title VI-B	6B-SF-01	84.027	1,440	60,339
Title VI-B - IDEA-B	6B-SF-03	84.027	476,262	420,632
Total Special Education Cluster			508,138	510,592
Title I	C1-S1-02	84.010	-	15,764
Title I	C1-S1-03	84.010	196,697	196,966
Total Title I			196,697	212,730
Eisenhower Grant	MS-S1-00	84.281	-	1,906
Eisenhower Grant	MS-S1-02	84.281	-	14,697
Total Eisenhower Grant			-	16,603
Title II-A	TRS1-2003	84.367	105,151	104,388
Total Title II-A			105,151	104,388
Title II-D	TJS1-2003	84.318	5,457	2,500
Total Title II-D			5,457	2,500
Assistive Technology Infusion Program	ATS2-2002	84.352A	5,332	5,332
Total Assistive Technology Infusion Program			5,332	5,332
Title VI	C2-S1-02	84.298	-	6,637
Title VI	C2-S1-03	84.298	27,308	31,461
Total Title VI			27,308	38,098
Drug Free Schools	DR-S1-01	84.186	783	-
Drug Free Schools	DR-S1-03	84.186	17,097	17,105
Total Drug Free Schools			17,880	17,105
Capital Expenses	N/A	84.216	-	33,101
Total Capital Expenses			-	33,101
Total U.S. Department of Education			865,963	940,449

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>CFDA Number</u>	<u>Receipts Recognized</u>	<u>Program Expenditures</u>
<i>U.S. Department of Health and Human Services</i>				
Pass Through Ohio Department of Mental Retardation and Developmental Disabilities:				
Medicaid Title XIX	N/A	93.778	\$ <u>281,935</u>	\$ <u>281,935</u>
Total Medicaid Title XIX			281,935	281,935
Pass Through the State Department of Education:				
Refugee and Entrant Assistance	N/A	93.576	-	<u>3,000</u>
Total Refugee and Entrant Assistance Grant			-	<u>3,000</u>
Total U.S. Department of Health and Human Services			<u>281,935</u>	<u>284,935</u>
Total Federal Expenditures			<u>\$ 1,418,072</u>	<u>\$ 1,495,558</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

SOUTH EUCLID-LYNTHURST CITY SCHOOL DISTRICT
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had commodities in inventory.

3. Matching Requirements

Certain federal programs require that the District contribute non-federal (matching funds) to support the federally funded programs. The expenditure of non-federal funds is not included on this schedule.

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**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
South Euclid-Lyndhurst City School District
Lyndhurst, Ohio

We have audited the financial statements of the South Euclid-Lyndhurst City School District as of and for the year ended June 30, 2003, and have issued our report thereon dated March 11, 2004 in which the District adopted Governmental Accounting Standards Board Statement No. 34 and GASB Interpretation 6. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated March 11, 2003.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
March 11, 2004

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

Board of Education
South Euclid-Lyndhurst City School District
Lyndhurst, Ohio

Compliance

We have audited the compliance of the South Euclid-Lyndhurst City School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report intended for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
March 11, 2004

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
June 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Special Education Cluster: Pre-school Disabilities Grant CFDA 84.173 Title VI-B CFDA 84.027 Title II-A CFDA 84.367
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

SOUTH EUCLID-LYNDHURST CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
June 30, 2003

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS

The prior audit report, for the year ended June 30, 2002, included no material citations or recommendations.



**Auditor of State
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SOUTH-EUCLID-LYNDHURST CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 27, 2004**