

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

FOR THE YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Accountants' Report | 1 |
| Management's Discussion and Analysis | 4 |
| Basic Financial Statements | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 12 |
| Statement of Activities | 13 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual General Fund | 18 |
| Statement of Fund Net Assets – Internal Service Fund | 19 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund | 20 |
| Statement of Cash Flows – Internal Service Fund | 21 |
| Statement of Fiduciary Assets and Liabilities – Agency Fund | 22 |
| Notes to the Basic Financial Statements | 23 |
| Schedule of Federal Awards Expenditures | 51 |
| Notes to Schedule of Federal Awards Expenditures | 52 |
| Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 53 |
| Independent Accountants' Report on Compliance With Requirements Applicable to Major Federal Programs and Internal Control Over Compliance In Accordance With OMB Circular A-133 | 55 |
| Schedule of Findings | 57 |

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Olmsted Falls City School District
Cuyahoga County
26937 Bagley Road
Olmsted Falls, Ohio 44138

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Olmsted Falls 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Olmsted Falls City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof 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 Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2003 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.

Management's Discussion & 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 of 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

October 27, 2003

This page intentionally left blank.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of Olmsted Falls City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- Revenues for governmental activities totaled \$30,620,652 in 2003. Of this total \$27,926,679 or 91.2 percent consisted of General Revenues while Program Revenues accounted for the balance of \$2,693,973 or 8.8 percent.
- Total assets of governmental activities increased by \$2,238,869 which includes increases in cash and cash equivalents and taxes receivable of \$1,241,651 and \$1,489,123, respectively. These increases were offset by decreases in settlement receivables and capital assets.
- Program expenses totaled \$31,105,334. Instructional expenses made up \$16,520,553 or 53.1 percent of this total while support services accounted for \$11,105,157 or 35.7 percent. Other expenses, \$3,479,624, rounded out the remaining 11.2 percent.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Olmsted Falls 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.

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

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers 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. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

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

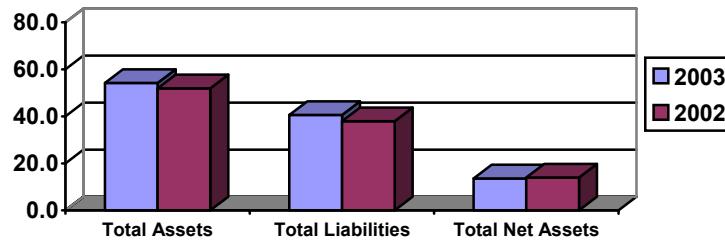
You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 1
 Net Assets
 Governmental Activities

| | 2003 | 2002 |
|---|--------------|--------------|
| Assets | | |
| Current and Other Assets | \$31,405,846 | \$28,912,839 |
| Capital Assets, Net | 22,756,171 | 23,010,309 |
| <i>Total Assets</i> | 54,162,017 | 51,923,148 |
| Liabilities | | |
| Current and Other Liabilities | 21,029,043 | 17,657,875 |
| Long-Term Liabilities: | | |
| Due Within One Year | 3,007,542 | 2,523,012 |
| Due in More than One Year | 16,560,515 | 17,692,662 |
| <i>Total Liabilities</i> | 40,597,100 | 37,873,549 |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 5,643,677 | 5,022,250 |
| Restricted: | | |
| Capital Projects | 318,289 | 135,816 |
| Debt Service | 2,025,522 | 2,018,729 |
| Other Purposes | 399,633 | 420,672 |
| Unrestricted | 5,177,796 | 6,452,132 |
| <i>Total Net Assets</i> | \$13,564,917 | \$14,049,599 |

Governmental Activities
 (in Millions)



Total assets increased by \$2,238,869. The majority of this increase can be attributed as an increase in the property tax receivable. New construction and the end of a tax abatement with Tuthill Corporation increased the property tax receivable.

Total liabilities increased by \$2,723,551. The majority of this increase can be attributed to an increase of leased equipment and modular classrooms. Deferred revenue also increased due to an increase in taxes receivable.

Table 2 shows the change in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2
 Governmental Activities

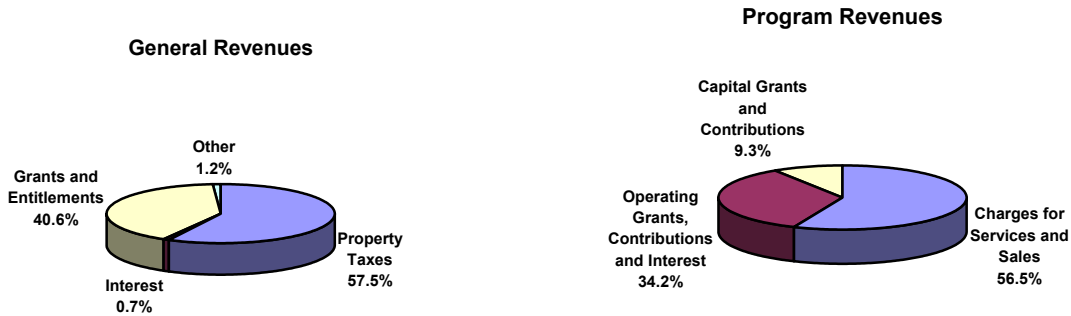
| | 2003 |
|--|---------------------|
| Revenues | |
| Program Revenues: | |
| Charges for Services and Sales | \$1,524,056 |
| Operating Grants, Contributions and Interest | 920,619 |
| Capital Grants and Contributions | 249,298 |
| <i>Total Program Revenues</i> | <i>2,693,973</i> |
| General Revenues: | |
| Property Taxes | 16,066,303 |
| Grants and Entitlements | 11,332,089 |
| Investment Earnings | 196,142 |
| Miscellaneous | 332,145 |
| <i>Total General Revenues</i> | <i>27,926,679</i> |
| Total Revenues | 30,620,652 |
| Program Expenses | |
| Instruction | 16,520,553 |
| Support Services: | |
| Pupil and Instructional Staff | 2,384,059 |
| Board of Education, Administration and Fiscal | 3,175,353 |
| Operation and Maintenance of Plant | 3,781,878 |
| Pupil Transportation | 1,597,539 |
| Central | 166,328 |
| Operation of Non-Instructional Services: | |
| Food Service Operations | 893,196 |
| Other Non-Instructional Services | 209,235 |
| Extracurricular Activities | 1,393,724 |
| Interest and Fiscal Charges | 983,469 |
| <i>Total Program Expenses</i> | <i>31,105,334</i> |
| Decrease in Net Assets | (484,682) |
| <i>Net Assets Beginning of Year - Restated</i> | <i>14,049,599</i> |
| <i>Net Assets End of Year</i> | <i>\$13,564,917</i> |

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

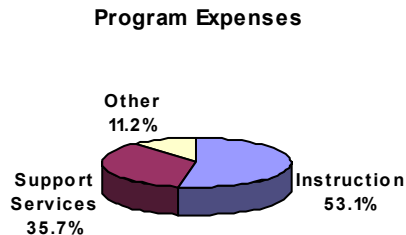
Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenditures over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$27,926,679 or 91.2 percent of the total revenue. The two significant portions of the general revenues are the local property taxes and foundation. Property taxes made up 52.5 percent of revenues for governmental activities for Olmsted Falls City School District in fiscal year 2003. The remaining amount of revenue received was in the form of program revenues, which made up of \$2,693,973 or only 8.8 percent of total revenue.



While looking at the program expenses, it is estimated that 53.1 percent was used to fund instructional expenses. Additional supporting services for pupils, instructional staff and business operations encompass an additional 35.7 percent. The remaining 11.2 percent of program expenses is used for other obligations of the School District such as non-instructional services, food service operations and extracurricular activities.



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.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 3
 Governmental Activities

| | Total Cost of Services 2003 | Net Cost of Services 2003 |
|---|-----------------------------------|---------------------------------|
| Instruction | \$16,520,553 | (\$15,988,097) |
| Support Services: | | |
| Pupil and Instructional Staff | 2,384,059 | (2,128,125) |
| Board of Education, Administration, and Fiscal | 3,175,353 | (3,093,850) |
| Operation and Maintenance of Plant | 3,781,878 | (3,778,130) |
| Pupil Transportation | 1,597,539 | (1,261,468) |
| Central | 166,328 | (152,328) |
| Operation of Non-Instructional Services: | | |
| Food Service Operations | 893,196 | (17,347) |
| Other Non-Instructional Services | 209,235 | (63,353) |
| Extracurricular Activities | 1,393,724 | (945,194) |
| Interest and Fiscal Charges | 983,469 | (983,469) |
| <i>Total</i> | \$31,105,334 | (\$28,411,361) |

The dependence upon general revenues for governmental activities is apparent. Over 50.0 percent of total expenses are supported through taxes. Grant and entitlements not restricted to specific programs support 36.4 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 8.6 percent of all governmental expenses. The community, as a whole, is the primary support for Olmsted Falls City School District students.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,859,254 and expenditures of \$32,672,770.

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the School District amended its general fund budget numerous times, none significant. The School District uses site-based budgeting. The budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue estimate was \$28,715,955; this was above original budget estimates of \$28,242,997. The main difference between the original and final estimates was due to an increase of funding for special education students in the School District. The final budget basis expenditures estimate totaled \$29,911,127 which is the same as the original estimates.

The School District's unencumbered ending cash balance totaled \$5,161,050.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the School District had \$22,756,171 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal year 2003 values compared to fiscal year 2002. More detailed information is presented in Note 10 of the notes to the basic financial statements.

Table 4
 Capital Assets at June 30
 Governmental Activities

| | 2003 | 2002 |
|----------------------------|--------------|--------------|
| Land | \$2,979,985 | \$3,021,982 |
| Buildings and Improvements | 13,980,413 | 14,493,505 |
| Furniture and Equipment | 3,099,223 | 2,568,378 |
| Vehicles | 2,231,767 | 2,072,552 |
| Textbooks | 464,783 | 853,892 |
| Totals | \$22,756,171 | \$23,010,309 |

All capital assets, except land, are reported net of depreciation. The decrease in capital assets is due to depreciation expense and equipment disposal for 2003, offset by acquisitions. These acquisitions were distributed among buildings and improvements, furniture and equipment and vehicles. The School District continued its ongoing commitment to maintaining and improving its capital assets.

Debt

At June 30, 2003, the School District had \$15,199,952 in bonds and notes outstanding. Table 5 below summarizes the School District's bonds and notes outstanding. More detailed information is presented in Notes 16 and 17 of the notes to the basic financial statements.

Table 5
 Outstanding Debt at Year End
 Governmental Activities

| | 2003 | 2002 |
|---|--------------|--------------|
| Manuscript Note | \$270,000 | \$270,000 |
| 1995 Classroom Facilities Improvement Bonds | 6,285,000 | 6,545,000 |
| 1995 Energy Conservation Improvement Bonds | 375,000 | 500,000 |
| 1997 School Improvement Refunding Bonds | 6,830,932 | 7,049,121 |
| 1998 Various Purpose Improvement Bonds | 135,000 | 165,000 |
| 2002 Energy Conservation Improvement Bonds | 484,020 | 544,522 |
| Energy Conservation Improvement Notes | 0 | 17,148 |
| Tax Anticipation Notes | 820,000 | 1,200,000 |
| Totals | \$15,199,952 | \$16,290,791 |

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

At June 30, 2003 the School District's overall legal debt margin was \$42,424,736 with an unvoted debt margin of \$382,948. The debt is well within permissible limits. The School District maintains an A-1 bond rating.

Current Financial Related Activities

Olmsted Falls City School District is strong financially. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District's Continuous Improvement Plan.

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Due to economic growth, the School District has not had to ask for an operating levy since 1999. Thus management must diligently plan expenses from this growth, staying carefully within its five-year forecast. Additional revenues than what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. 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 decision 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..."

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Olmsted Falls City School District has committed itself to financial excellence for many years. The School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kent R. Zeman, CPA, Treasurer at Olmsted Falls City School District, 26937 Bagley Road, Olmsted Falls, Ohio 44138; or by e-mail at ofall_kz@leeca.org.

Olmsted Falls City School District

Statement of Net Assets

June 30, 2003

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$9,461,470 |
| Investments | 270,000 |
| Accrued Interest Receivable | 6,822 |
| Accounts Receivable | 38,836 |
| Intergovernmental Receivable | 16,142 |
| Prepays | 244,118 |
| Inventory Held for Resale | 22,798 |
| Materials and Supplies Inventory | 154,783 |
| Property Taxes Receivable | 19,100,877 |
| Settlement Receivable | 2,090,000 |
| Nondepreciable Capital Assets | 2,979,985 |
| Depreciable Capital Assets, Net | 19,776,186 |
| <i>Total Assets</i> | <u>54,162,017</u> |
| Liabilities | |
| Accounts Payable | 177,091 |
| Accrued Wages and Benefits | 2,635,088 |
| Intergovernmental Payable | 670,976 |
| Accrued Interest Payable | 27,685 |
| Matured Compensated Absences Payable | 416,775 |
| Deferred Revenue | 16,637,784 |
| Notes Payable | 270,000 |
| Claims Payable | 193,644 |
| Long-Term Liabilities: | |
| Due Within One Year | 3,007,542 |
| Due In More Than One Year | 16,560,515 |
| <i>Total Liabilities</i> | <u>40,597,100</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 5,643,677 |
| Restricted for: | |
| Capital Projects | 318,289 |
| Debt Service | 2,025,522 |
| Other Purposes | 399,633 |
| Unrestricted | 5,177,796 |
| <i>Total Net Assets</i> | <u><u>\$13,564,917</u></u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets |
|--|---------------------|-----------------------------------|--|-------------------------------------|--|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | | |
| Instruction: | | | | | |
| Regular | \$13,831,000 | \$225,887 | \$74,026 | \$46,889 | (\$13,484,198) |
| Special | 2,289,695 | 0 | 180,909 | 0 | (2,108,786) |
| Vocational | 364,684 | 0 | 0 | 591 | (364,093) |
| Adult/Continuing | 35,174 | 4,154 | 0 | 0 | (31,020) |
| Support Services: | | | | | |
| Pupil | 1,188,455 | 0 | 122,395 | 0 | (1,066,060) |
| Instructional Staff | 1,195,604 | 0 | 133,539 | 0 | (1,062,065) |
| Board of Education | 199,751 | 0 | 0 | 0 | (199,751) |
| Administration | 2,263,157 | 0 | 81,503 | 0 | (2,181,654) |
| Fiscal | 712,445 | 0 | 0 | 0 | (712,445) |
| Operation and Maintenance of Plant | 3,781,878 | 3,748 | 0 | 0 | (3,778,130) |
| Pupil Transportation | 1,597,539 | 134,253 | 0 | 201,818 | (1,261,468) |
| Central | 166,328 | 0 | 14,000 | 0 | (152,328) |
| Operation of Non-Instructional Services: | | | | | |
| Food Service Operations | 893,196 | 737,872 | 137,977 | 0 | (17,347) |
| Other Non-Instructional Services | 209,235 | 0 | 145,882 | 0 | (63,353) |
| Extracurricular Activities | 1,393,724 | 418,142 | 30,388 | 0 | (945,194) |
| Interest and Fiscal Charges | 983,469 | 0 | 0 | 0 | (983,469) |
| Totals | \$31,105,334 | \$1,524,056 | \$920,619 | \$249,298 | (28,411,361) |

General Revenues

| | |
|---|--------------------------|
| Property Taxes Levied for: | |
| General Purposes | 14,807,363 |
| Debt Service | 1,100,761 |
| Capital Projects | 158,179 |
| Grants and Entitlements not Restricted to Specific Programs | 11,332,089 |
| Investment Earnings | 196,142 |
| Miscellaneous | 332,145 |
| Total General Revenues | 27,926,679 |
| Change in Net Assets | (484,682) |
| <i>Net Assets Beginning of Year - See Note 3</i> | <u>14,049,599</u> |
| <i>Net Assets End of Year</i> | <u><u>13,564,917</u></u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District

Balance Sheet

Governmental Funds

June 30, 2003

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$6,142,418 | \$1,585,266 | \$831,704 | \$8,559,388 |
| Investments | 0 | 270,000 | 0 | 270,000 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 106,632 | 0 | 0 | 106,632 |
| Receivables: | | | | |
| Accrued Interest | 6,822 | 0 | 0 | 6,822 |
| Accounts | 33,985 | 0 | 4,424 | 38,409 |
| Intergovernmental | 2,263 | 0 | 13,879 | 16,142 |
| Property Taxes | 17,569,599 | 1,348,479 | 182,799 | 19,100,877 |
| Settlement | 2,090,000 | 0 | 0 | 2,090,000 |
| Prepaid Items | 238,512 | 0 | 5,606 | 244,118 |
| Inventory Held for Resale | 0 | 0 | 22,798 | 22,798 |
| Materials and Supplies Inventory | 152,197 | 0 | 2,586 | 154,783 |
| <i>Total Assets</i> | <u>\$26,342,428</u> | <u>\$3,203,745</u> | <u>\$1,063,796</u> | <u>\$30,609,969</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$136,925 | \$675 | \$39,274 | \$176,874 |
| Accrued Wages and Benefits | 2,548,916 | 0 | 86,172 | 2,635,088 |
| Intergovernmental Payable | 360,888 | 0 | 12,458 | 373,346 |
| Accrued Interest Payable | 450 | 0 | 0 | 450 |
| Deferred Revenue | 18,338,342 | 1,248,735 | 177,548 | 19,764,625 |
| Matured Compensated Absences Payable | 416,775 | 0 | 0 | 416,775 |
| Notes Payable | 270,000 | 0 | 0 | 270,000 |
| <i>Total Liabilities</i> | <u>22,072,296</u> | <u>1,249,410</u> | <u>315,452</u> | <u>23,637,158</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 939,736 | 0 | 84,039 | 1,023,775 |
| Reserved for Property Taxes | 1,321,257 | 99,744 | 16,292 | 1,437,293 |
| Reserved for Budget Stabilization | 106,632 | 0 | 0 | 106,632 |
| Unreserved, Undesignated | | | | |
| Reported in: | | | | |
| General Fund | 1,902,507 | 0 | 0 | 1,902,507 |
| Special Revenue Funds | 0 | 0 | 368,967 | 368,967 |
| Debt Service Fund | 0 | 1,854,591 | 0 | 1,854,591 |
| Capital Projects Funds | 0 | 0 | 279,046 | 279,046 |
| <i>Total Fund Balances</i> | <u>4,270,132</u> | <u>1,954,335</u> | <u>748,344</u> | <u>6,972,811</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$26,342,428</u> | <u>\$3,203,745</u> | <u>\$1,063,796</u> | <u>\$30,609,969</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003*

| | |
|--|----------------------------|
| Total Governmental Fund Balances | \$6,972,811 |
| <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 | 22,756,171 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | |
| Delinquent Property Taxes | 1,025,800 |
| Grants | 11,041 |
| Settlement | <u>2,090,000</u> |
| Total | 3,126,841 |
| 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. | 602,016 |
| Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds | (297,630) |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental fund, an interest expenditure is reported when due. | (27,235) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | |
| General Obligation Bonds | (9,814,020) |
| Capital Appreciation Bonds | (4,295,932) |
| Notes Payable | (820,000) |
| Capital Lease Obligations Payable | (1,912,542) |
| Compensated Absences | <u>(2,725,563)</u> |
| Total | <u>(19,568,057)</u> |
| <i>Net Assets of Governmental Activities</i> | <u><u>\$13,564,917</u></u> |

Olmsted Falls City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$14,604,451 | \$1,089,873 | \$154,472 | \$15,848,796 |
| Intergovernmental | 11,445,205 | 153,317 | 878,204 | 12,476,726 |
| Interest | 195,523 | 0 | 2,882 | 198,405 |
| Tuition and Fees | 112,542 | 0 | 117,499 | 230,041 |
| Rentals | 3,748 | 0 | 1,500 | 5,248 |
| Extracurricular Activities | 0 | 0 | 416,642 | 416,642 |
| Contributions and Donations | 0 | 0 | 74,126 | 74,126 |
| Charges for Services | 134,253 | 0 | 737,872 | 872,125 |
| Settlement Payments | 405,000 | 0 | 0 | 405,000 |
| Miscellaneous | 267,927 | 0 | 64,218 | 332,145 |
| <i>Total Revenues</i> | <u>27,168,649</u> | <u>1,243,190</u> | <u>2,447,415</u> | <u>30,859,254</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 12,814,172 | 0 | 179,783 | 12,993,955 |
| Special | 2,194,793 | 0 | 89,801 | 2,284,594 |
| Vocational | 374,433 | 0 | 0 | 374,433 |
| Adult/Continuing | 31,033 | 0 | 0 | 31,033 |
| Support Services: | | | | |
| Pupil | 1,117,166 | 0 | 164,884 | 1,282,050 |
| Instructional Staff | 1,067,125 | 0 | 144,623 | 1,211,748 |
| Board of Education | 199,751 | 0 | 0 | 199,751 |
| Administration | 2,132,734 | 0 | 88,822 | 2,221,556 |
| Fiscal | 712,684 | 570 | 78 | 713,332 |
| Operation and Maintenance of Plant | 3,775,588 | 0 | 0 | 3,775,588 |
| Pupil Transportation | 1,561,714 | 0 | 0 | 1,561,714 |
| Central | 145,341 | 0 | 14,000 | 159,341 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 0 | 0 | 859,484 | 859,484 |
| Other Non-Instructional Services | 34,018 | 0 | 175,696 | 209,714 |
| Extracurricular Activities | 933,796 | 0 | 470,707 | 1,404,503 |
| Capital Outlay | 759,407 | 0 | 58,926 | 818,333 |
| Debt Service: | | | | |
| Principal Retirement | 1,105,330 | 750,000 | 0 | 1,855,330 |
| Interest and Fiscal Charges | 219,596 | 496,715 | 0 | 716,311 |
| <i>Total Expenditures</i> | <u>29,178,681</u> | <u>1,247,285</u> | <u>2,246,804</u> | <u>32,672,770</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (2,010,032) | (4,095) | 200,611 | (1,813,516) |
| Other Financing Sources | | | | |
| Inception of Capital Leases | 707,954 | 0 | 0 | 707,954 |
| <i>Net Change in Fund Balances</i> | (1,302,078) | (4,095) | 200,611 | (1,105,562) |
| <i>Fund Balances Beginning of Year -</i> | | | | |
| <i>Restated (See Note 3)</i> | <u>5,572,210</u> | <u>1,958,430</u> | <u>547,733</u> | <u>8,078,373</u> |
| <i>Fund Balances End of Year</i> | <u>\$4,270,132</u> | <u>\$1,954,335</u> | <u>\$748,344</u> | <u>\$6,972,811</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$1,105,562)

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

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

| | |
|---------------------------|-------------|
| Capital Asset Additions | 1,433,609 |
| Current Year Depreciation | (1,576,613) |

Total (143,004)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (111,134)

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

| | |
|---------------------------|-----------|
| Delinquent Property Taxes | 217,507 |
| Grants | (51,109) |
| Settlement | (405,000) |

Total (238,602)

Inception of capital leases in the governmental funds increased long-term liabilities in the statement of net assets. (707,954)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,855,330

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 4,653

Bond accretion in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds. (271,811)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | |
|----------------------|-----------|
| Compensated Absences | (227,948) |
| Pension Obligation | 6,812 |

Total (221,136)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statements of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 454,538

Change in Net Assets of Governmental Activities (\$484,682)

Olmsted Falls 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 Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Property Taxes | \$16,024,553 | \$16,292,900 | \$16,418,727 | \$125,827 |
| Intergovernmental | 11,171,148 | 11,358,220 | 11,445,937 | 87,717 |
| Interest | 181,024 | 184,056 | 185,477 | 1,421 |
| Tuition and Fees | 109,840 | 111,680 | 112,542 | 862 |
| Rentals | 4,047 | 4,115 | 4,147 | 32 |
| Charges for Services | 131,030 | 133,224 | 134,253 | 1,029 |
| Settlement Payments | 405,000 | 405,000 | 405,000 | 0 |
| Miscellaneous | 216,355 | 226,760 | 231,679 | 4,919 |
| <i>Total Revenues</i> | <u>28,242,997</u> | <u>28,715,955</u> | <u>28,937,762</u> | <u>221,807</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 12,991,998 | 12,991,998 | 13,008,161 | (16,163) |
| Special | 2,612,078 | 2,612,078 | 2,602,665 | 9,413 |
| Vocational | 367,393 | 367,393 | 374,850 | (7,457) |
| Adult/Continuing | 45,462 | 45,462 | 30,954 | 14,508 |
| Other | 78,371 | 78,371 | 65,986 | 12,385 |
| Support Services: | | | | |
| Pupils | 1,233,734 | 1,233,734 | 1,149,959 | 83,775 |
| Instructional Staff | 1,066,015 | 1,066,015 | 1,025,749 | 40,266 |
| Board of Education | 264,860 | 264,860 | 267,223 | (2,363) |
| Administration | 2,225,784 | 2,225,784 | 2,072,661 | 153,123 |
| Fiscal | 752,654 | 752,654 | 757,327 | (4,673) |
| Operation and Maintenance of Plant | 3,932,139 | 3,932,139 | 4,043,315 | (111,176) |
| Pupil Transportation | 1,670,793 | 1,670,793 | 1,656,395 | 14,398 |
| Central | 170,988 | 170,988 | 194,287 | (23,299) |
| Operation of Non-Instructional Services | 14,751 | 14,751 | 37,792 | (23,041) |
| Extracurricular Activities | 973,566 | 973,566 | 932,729 | 40,837 |
| Capital Outlay | 503,607 | 503,607 | 520,059 | (16,452) |
| Debt Service: | | | | |
| Principal Retirement | 882,650 | 882,650 | 882,650 | 0 |
| Interest and Fiscal Charges | 124,284 | 124,284 | 124,284 | 0 |
| <i>Total Expenditures</i> | <u>29,911,127</u> | <u>29,911,127</u> | <u>29,747,046</u> | <u>164,081</u> |
| <i>Excess of Revenues Under Expenditures</i> | (1,668,130) | (1,195,172) | (809,284) | 385,888 |
| Other Financing Sources | | | | |
| Proceeds of Notes | 0 | 0 | 270,000 | 270,000 |
| <i>Net Change in Fund Balance</i> | (1,668,130) | (1,195,172) | (539,284) | 655,888 |
| <i>Fund Balance Beginning of Year</i> | 4,465,978 | 4,465,978 | 4,465,978 | 0 |
| Prior Year Encumbrances Appropriated | 1,234,356 | 1,234,356 | 1,234,356 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$4,032,204</u> | <u>\$4,505,162</u> | <u>\$5,161,050</u> | <u>\$655,888</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District

Statement of Fund Net Assets

Internal Service Fund

June 30, 2003

| | <u>Self Insurance</u> |
|--|---------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$795,450 |
| Accounts Receivable | <u>427</u> |
| <i>Total Assets</i> | <u>795,877</u> |
| | |
| Liabilities | |
| Accounts Payable | 217 |
| Claims Payable | <u>193,644</u> |
| <i>Total Liabilities</i> | <u>193,861</u> |
| | |
| Net Assets | |
| Unrestricted | <u><u>\$602,016</u></u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
*Statement of Revenues,
 Expenses and Changes in Fund Net Assets
 Internal Service Fund
 For the Fiscal Year Ended June 30, 2003*

| | <u>Self Insurance</u> |
|-------------------------------------|---------------------------|
| Operating Revenues | |
| Charges for Services | <u>\$2,660,594</u> |
| Operating Expenses | |
| Purchased Services | 327,753 |
| Claims | <u>1,878,303</u> |
| <i>Total Operating Expenses</i> | <u>2,206,056</u> |
| <i>Changes in Net Assets</i> | 454,538 |
| <i>Net Assets Beginning of Year</i> | <u>147,478</u> |
| <i>Net Assets End of Year</i> | <u><u>\$602,016</u></u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2003

| | Self Insurance |
|--|-------------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Transactions with Other Funds | \$2,661,365 |
| Cash Payments for Goods and Services | (327,750) |
| Cash Payments for Claims | (2,024,865) |
| <i>Net Increase in Cash and Cash Equivalents</i> | 308,750 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 486,700 |
| <i>Cash and Cash Equivalents End of Year</i> | \$795,450 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income | \$454,538 |
| Adjustments: | |
| Decrease in Accounts Receivable | 771 |
| Increase (Decrease) in Liabilities: | |
| Accounts Payable | 3 |
| Claims Payable | (146,562) |
| <i>Net Cash Provided by Operating Activities</i> | \$308,750 |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2003

| | <u>Agency</u> |
|--|-----------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$53,991</u> |
| Liabilities | |
| Accounts Payable | \$7,344 |
| Due to Students | <u>46,647</u> |
| <i>Total Liabilities</i> | <u>\$53,991</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

The Olmsted Falls City School District (School District) operates under a locally elected five member Board and provides educational services as mandated by State and federal agencies. The School District includes the City of Olmsted Falls, a small portion of the City of Berea, Olmsted Township and a small portion of Columbia Township. All of the communities served are located in Cuyahoga County with the exception of Columbia Township, which is located in Lorain County. It is staffed by 145 non-certified personnel, 220 certified full-time teaching personnel and 15 administrative employees to provide services to 3,150 students and other community members. The School District operates one primary school (Pre K-3), one intermediate school (4-5), one middle school (6-8), and one high school (9-12).

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, agencies, departments and offices that are not legally separate from the School District. For Olmsted Falls City School District, agencies and departments provide the following services: 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. The School District does not have any component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Lake Erie Educational Computer Association (LEECA), the Ohio Schools Council, the Polaris Career Center, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Note 18 and Note 19 of the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are 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 limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into three categories: 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 is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Bond Retirement Debt Service Fund The bond retirement fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds issued for energy conservation.

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

Proprietary Fund Type Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District only has an internal service fund.

Internal Service Fund This fund is used to account 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 utilizes an internal service fund to account for the operation of the School District's self insurance program for employee health benefits, as well as prescription drug, dental, life, and vision claims.

Fiduciary Fund Type 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. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund which reports resources that belong to the student bodies of the various schools.

C. Measurement Focus

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets present 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 internal service fund activity.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance, interest, tuition, grants, 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 governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

E. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to manuscript bonds and notes, STAROhio, federal home loan mortgage corporation notes, federal home loan bank bonds, and federal national mortgage association notes. 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.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$195,523 which includes \$65,225 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. 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 represent amounts required by State statute to be set-aside to create a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are reported as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventories consist of donated food, purchased food and school supplies held for resale, and materials and supplies held for consumption.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

I. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the governmental-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars and an estimated life of five years. 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:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 25-30 years |
| Furniture and Equipment | 5-15 years |
| Vehicles | 5-10 years |
| Textbooks | 5-10 years |

J. 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. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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 two years of current service with the School District.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the general fund.

K. Accrued Liabilities and Long-Term Obligations

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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, contractually required pension contributions and retirement incentives 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 the payment during the current fiscal year. Bonds, capital lease obligations and long-term notes are recognized as a liability on the governmental fund financial statements when due.

L. Net Assets

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

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation 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.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenue and expenses not meeting these definitions are reported as non-operating.

O. 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.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

P. 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.

Q. Budgetary Data

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

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 amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Note 3 - Changes 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 Statement No. 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. Fiduciary funds are reported by type.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34, which includes reclassifying enterprise funds as special revenue funds for reporting purposes, 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 Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the governments not being able to present budgetary comparisons for the general and each major special revenue fund.

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.

Restatement of Fund Balance The implementation of these changes, together with restatements for prepaids that were previously understated and notes payable that were previously reported as fund liabilities, had the following effects on fund balance of the major and nonmajor funds of the School District. The transition from governmental fund balance to net assets of the governmental activities is also presented.

| | General | Bond Retirement | Nonmajor | Total |
|---|--------------------|--------------------|------------------|---------------------|
| Fund Balance, June 30, 2002 | \$4,363,658 | \$1,958,430 | \$406,373 | \$6,728,461 |
| Fund Reclassification | 0 | 0 | 110,241 | 110,241 |
| Prepaid Items | 61,440 | 0 | 0 | 61,440 |
| Intergovernmental Liabilities Overstatement | 52,999 | 0 | 20,411 | 73,410 |
| Accrued Interest Payable | (563) | 0 | 0 | (563) |
| Notes Payable Reclassification | 1,200,000 | 0 | 0 | 1,200,000 |
| Implementation of GASB Interpretation No. 6 | (105,324) | 0 | 10,708 | (94,616) |
| Restated Fund Balance, June 30, 2002 | <u>\$5,572,210</u> | <u>\$1,958,430</u> | <u>\$547,733</u> | 8,078,373 |
| GASB 34 Adjustments: | | | | |
| Capital Assets | | | | 23,010,309 |
| Internal Service Fund | | | | 147,478 |
| Long-Term (Deferred) Assets | | | | 3,365,443 |
| Long-Term Liabilities | | | | (20,215,674) |
| Pension Obligations | | | | (304,442) |
| Accrued Interest Payable | | | | (31,888) |
| Governmental Activities Net Assets, June 30, 2002 | | | | <u>\$14,049,599</u> |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

| | Business-type Activities |
|------------------------------------|-----------------------------|
| Net Assets, June 30, 2002 | \$309,666 |
| Fund Reclassification | (309,666) |
| Adjusted Net Assets, June 30, 2002 | \$0 |

Note 4 - Fund Deficit

At June 30, 2003, the Title VI-B special revenue fund had a deficit fund balance of \$5,485. The deficit is due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (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 (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balance

| | |
|---|---------------------------|
| GAAP Basis | (\$1,302,078) |
| Net Adjustment for Revenue Accruals | 1,064,383 |
| Note Proceeds | 270,000 |
| Beginning Fair Value Adjustment for Investments | 9,013 |
| Ending Fair Value Adjustment for Investments | (12,237) |
| Net Adjustment for Expenditure Accruals | 777,398 |
| Note Retirement | (270,000) |
| Adjustment for Encumbrances | <u>(1,075,763)</u> |
| Budget Basis | <u><u>(\$539,284)</u></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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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.

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

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At fiscal year-end, the School District had \$3,850 in unreported cash which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits At fiscal year-end, the carrying amount of the School District's deposits was \$2,996,442 and the bank balance was \$3,306,955. Of the bank balance:

1. \$300,000 of the bank balance was covered by depository insurance; and
2. \$3,006,955 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Investments Investments are 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. The School District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

| | Category 1 | Category 3 | Carrying and Fair Value |
|--|------------------|--------------------|-------------------------------|
| Federal Home Loan Mortgage Corporation Notes | \$0 | \$1,253,998 | \$1,253,998 |
| Federal Home Loan Bank Bonds | 0 | 500,410 | 500,410 |
| Federal National Mortgage Association Notes | 0 | 754,688 | 754,688 |
| Manuscript Notes | 270,000 | 0 | 270,000 |
| STAROhio | | | 4,006,073 |
| Total | \$270,000 | \$2,509,096 | \$6,785,169 |

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|---|---------------------------------------|--------------------|
| GASB Statement No. 9 | \$9,515,461 | \$270,000 |
| Cash on Hand | (3,850) | 0 |
| Investments which are part of the cash management pool: | | |
| Federal Home Loan Mortgage Corporation Notes | (1,253,998) | 1,253,998 |
| Federal Home Loan Bank Bonds | (500,410) | 500,410 |
| Federal National Mortgage Association Notes | (754,688) | 754,688 |
| STAROhio | (4,006,073) | 4,006,073 |
| GASB Statement No. 3 | \$2,996,442 | \$6,785,169 |

Note 7 - Property Taxes

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Cuyahoga and Lorain Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$1,321,257 in the general fund, \$99,744 in the bond retirement debt service fund, and \$16,292 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2002, was \$3,135,533 in the general fund, \$255,473 in the debt service fund, and \$33,561 in the classroom facilities capital projects fund. The difference was in the timing and collection by the County Auditor.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

| | 2002 Second Half Collections | | 2003 First Half Collections | |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$345,359,350 | 93.58 % | \$356,374,470 | 93.06 % |
| Public Utility Personal | 12,988,200 | 3.52 | 12,615,960 | 3.29 |
| Tangible Personal Property | 10,720,867 | 2.90 | 13,957,425 | 3.65 |
| Total | \$369,068,417 | 100.00 % | \$382,947,855 | 100.00 % |
| Tax rate per \$1,000 of assessed valuation | \$92.40 | | \$90.00 | |

Note 8 - Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (rent and tuition), 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. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| Governmental Activities | Amounts |
|-------------------------|-----------------|
| OhioReads | \$9,500 |
| Food Service | 2,838 |
| General | 2,263 |
| Title III LEP | 870 |
| Eisenhower | 671 |
| Total | \$16,142 |

Note 9 - Settlement Receivable

The Olmsted Falls City School District in conjunction with Olmsted Township challenged a real property tax exemption claimed and received by The Renaissance Retirement Center. The exemption was granted for the tax years 1991 to 2006. This exemption was based on the facility providing medical services as a hospital. The challenge was appealed until reaching the Ohio Supreme Court. The Ohio Supreme Court ruled that some portion of the property was and is taxable. The taxable portion was then disputed. On May 13, 1998 a settlement was reached between The Renaissance Retirement Center, Olmsted Township, and Olmsted Falls City School District. The settlement provides that The Renaissance Retirement Center shall make payments directly to the Olmsted Falls City School District. The payments are secured by a mortgage on several properties owned by The Renaissance Retirement Center. In the event of a default on the payments by The Renaissance Retirement Center, the mortgage provided by the settlement allows the Olmsted Falls City School District and Olmsted Township to foreclose on the properties. The payments are to be made semi-annually beginning in January 1999 and continuing through July 2007. The future payments of \$2,090,000 are reflected on the fund financial statements as settlement receivable and deferred revenue in the general fund. On a full accrual basis, the amount has been recorded as a receivable and revenue.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 10 - Capital Assets

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

| | Balance 6/30/02 | Additions | Deletions | Balance 6/30/03 |
|--|---------------------|----------------------|--------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$3,021,982 | \$0 | (\$41,997) | \$2,979,985 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 22,402,244 | 1,853 | 0 | 22,404,097 |
| Furniture and Equipment | 6,264,585 | 1,207,835 | (203,799) | 7,268,621 |
| Vehicles | 2,114,657 | 223,921 | 0 | 2,338,578 |
| Textbooks | 3,026,406 | 0 | 0 | 3,026,406 |
| <i>Total Capital Assets, being depreciated</i> | <u>33,807,892</u> | <u>1,433,609</u> | <u>(203,799)</u> | <u>35,037,702</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (7,908,739) | (514,945) | 0 | (8,423,684) |
| Furniture and Equipment | (3,696,207) | (607,853) | 134,662 | (4,169,398) |
| Vehicles | (42,105) | (64,706) | 0 | (106,811) |
| Textbooks | (2,172,514) | (389,109) | 0 | (2,561,623) |
| Total Accumulated Depreciation | <u>(13,819,565)</u> | <u>(1,576,613) *</u> | <u>134,662</u> | <u>(15,261,516)</u> |
| Total Capital Assets, being depreciated, net | <u>19,988,327</u> | <u>(143,004)</u> | <u>(69,137)</u> | <u>19,776,186</u> |
| Governmental Activities Capital Assets, Net | <u>\$23,010,309</u> | <u>(\$143,004)</u> | <u>(\$111,134)</u> | <u>\$22,756,171</u> |

* Depreciation expense was charged to governmental functions as follow:

| | |
|--|--------------------|
| Instruction: | |
| Regular | \$1,445,790 |
| Special | 296 |
| Vocational | 538 |
| Support Services: | |
| Pupils | 27 |
| Instructional Staff | 306 |
| Administration | 3,704 |
| Fiscal | 746 |
| Operation and Maintenance of Plant | 39,813 |
| Pupil Transportation | 42,071 |
| Central | 6,987 |
| Operation of Non-Instructional Services: | |
| Food Service Operations | 34,356 |
| Other Non-Instructional Services | 169 |
| Extracurricular Activities | 1,810 |
| Total Depreciation Expense | <u>\$1,576,613</u> |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 11 - Risk Management

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. During fiscal year 2003, the School District contracted with Ohio Schools Risk Sharing Authority (OSRSA) for property insurance of \$68,263,322, with a deductible of \$1,000 per incident. Vehicles are insured by OSRSA in the amount of \$4,000,000, with a \$250 deductible. Professional liability is protected by the OSRSA for all Board Members, administrators, and employees with limits of \$2,000,000 per occurrence and \$5,000,000 aggregate limit.

The Ohio Casualty Insurance Company maintains both a \$20,000 public official bond for the Superintendent, and a \$20,000 public official bond for the Board of Education President. A \$20,000 public official bond for the Treasurer is maintained by Nationwide Insurance. Other employees handling money are covered by a \$5,000 public employees blanket bond provided by Ohio Casualty Insurance.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 19). 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 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.

The School District has elected to provide medical/surgical, vision, prescription and dental benefits on a self-insured basis. The claims liability of \$193,644, reported in the self-insurance fund at June 30, 2003, is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount for the last two years follow:

| | Balance at Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|---------------------------------|------------------------|-------------------|---------------------------|
| 2002 | \$225,618 | \$1,791,245 | \$1,676,657 | \$340,206 |
| 2003 | 340,206 | 1,878,303 | 2,024,865 | 193,644 |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (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 43215-3746.

Plan members are required to contribute 9 percent 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 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$374,766, \$231,466, and \$158,877 respectively; 54.69 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

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.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,616,788, \$1,123,871, and \$1,301,040, respectively; 87.06 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$10,000 made by the School District and \$17,295 made by the plan members.

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 the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$125,699 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$313,781.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 14 - 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 earn up to twenty days of vacation per fiscal year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is one-fourth of accrued, but unused sick leave credit to a maximum of 90 days.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to its employees. Coverage is equal to employees' annual salary amount rounded to the nearest one thousand dollars. Life insurance is covered through Educational Employees Life Insurance Trust.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 15 - Leases

A. Capital Leases

During fiscal year 2003, the School District entered into capitalized leases for a phone system, two modular classrooms and four new copiers. The School District's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases." Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been originally capitalized in the amount of \$3,011,810. Accumulated depreciation as of June 30, 2003 was \$414,567, leaving a current book value of \$2,597,243. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

| Fiscal Year Ending June 30, | Governmental Activities |
|---|----------------------------|
| 2004 | \$620,709 |
| 2005 | 562,296 |
| 2006 | 611,244 |
| 2007 | 165,089 |
| 2008 | 105,507 |
| 2009 | 32,513 |
| Total | 2,097,358 |
| Less: Amount Representing Interest | (184,816) |
| Present Value of Net Minimum Lease Payments | \$1,912,542 |

B. Operating Lease

The School District has one noncancellable operating lease. The future minimum lease payment is \$2,704 in fiscal year 2004.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 16 - Note Debt

The School District's note activity for fiscal year 2003, including amounts outstanding and interest rates, is as follows:

| | Principal Outstanding 6/30/02 | Additions | Deductions | Principal Outstanding 6/30/03 |
|--|-------------------------------------|------------------|------------------|-------------------------------------|
| <i>General Fund:</i> | | | | |
| 2002 2.50% Property Acquisition Manuscript Note | \$270,000 | \$0 | \$270,000 | \$0 |
| 2003 2.00% Property Acquisition Manuscript Note | 0 | 270,000 | 0 | 270,000 |
| <i>Total Fund Obligations</i> | <u>\$270,000</u> | <u>\$270,000</u> | <u>\$270,000</u> | <u>\$270,000</u> |

The notes are backed by the full faith and credit of Olmsted Falls City School District. The note liability is reflected in the fund which received the proceeds.

Note 17 - Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's bonds follows:

| Debt Issue | Interest Rate | Original Issue Amount | Date of Maturity |
|--|---------------|--------------------------|-------------------|
| <i>General Obligation Bonds:</i> | | | |
| Classroom Facilities Improvement - 1995 | 5.10-5.85% | \$7,625,000 | December 15, 2017 |
| Energy Conservation Improvement - 1995 | 4.75-5.3% | 1,230,000 | December 15, 2005 |
| School Improvement Refunding - 1997 | 3.85-6.75% | 8,828,772 | December 15, 2011 |
| Various Purpose Improvement - 1998 | 4.60% | 270,000 | December 15, 2006 |
| Energy Conservation Improvement - 2002 | 6.12% | 605,025 | December 1, 2010 |
| <i>General Obligation Notes:</i> | | | |
| Energy Conservation Improvement 1992 Property Acquisition | 5.75% | 171,488 | September 1, 2002 |
| Tax Anticipation Notes - 1999 | 5.50% | 1,900,000 | December 1, 2004 |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

| | Principal Outstanding 6/30/02 | Additions | (Reductions) | Principal Outstanding 6/30/03 | Amount Due in One Year |
|--|-------------------------------------|--------------------|----------------------|-------------------------------------|------------------------------|
| Governmental Activities: | | | | | |
| General Obligations Bonds: | | | | | |
| 1995 Classroom Facilities Improvements | \$6,545,000 | \$0 | (\$260,000) | \$6,285,000 | \$280,000 |
| 1995 Energy Conservation Improvement | 500,000 | 0 | (125,000) | 375,000 | 125,000 |
| 1997 School Improvement Refunding | 3,025,000 | 0 | (490,000) | 2,535,000 | 530,000 |
| 1997 School Improvement Refunding | | | | | |
| Capital Appreciation Bonds | 4,024,121 | 271,811 | 0 | 4,295,932 | 0 |
| 1998 Various Purpose Improvement | 165,000 | 0 | (30,000) | 135,000 | 30,000 |
| 2002 Energy Conservation Improvement | 544,522 | 0 | (60,502) | 484,020 | 60,502 |
| <i>Total General Obligation Bonds</i> | <u>14,803,643</u> | <u>271,811</u> | <u>(965,502)</u> | <u>14,109,952</u> | <u>1,025,502</u> |
| Long Term Notes: | | | | | |
| Energy Conservation Improvement | 17,148 | 0 | (17,148) | 0 | 0 |
| Tax Anticipation | 1,200,000 | 0 | (380,000) | 820,000 | 400,000 |
| <i>Total General Long Term Notes</i> | <u>1,217,148</u> | <u>0</u> | <u>(397,148)</u> | <u>820,000</u> | <u>400,000</u> |
| Capital Leases | 1,697,268 | 707,954 | (492,680) | 1,912,542 | 537,017 |
| Compensated Absences | 2,497,615 | 340,384 | (112,436) | 2,725,563 | 1,045,023 |
| Total Governmental Activities | <u>\$20,215,674</u> | <u>\$1,320,149</u> | <u>(\$1,967,766)</u> | <u>\$19,568,057</u> | <u>\$3,007,542</u> |

All general obligation bonds will be paid from property taxes. Capital lease obligations will be paid from the general fund. Compensated absences will be paid from the general fund and the food service, auxiliary services and title VI-B special revenue funds.

The 1997 general obligation bonds include capital appreciation bonds. This year the addition on these bonds was \$271,811, which represents the accretion of discounted interest remaining on the bonds. The final maturity amount of these bonds is \$6,575,000.

The School District's overall legal debt margin was \$42,424,736 with an unvoted debt margin of \$382,948 at 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 | | Capital Appreciation Bonds | |
|--------------------------------|--------------------------|--------------------|----------------------------|--------------------|
| | Principal | Interest | Principal | Interest |
| 2004 | \$1,025,502 | \$508,800 | \$0 | \$0 |
| 2005 | 1,125,503 | 455,962 | 0 | 0 |
| 2006 | 1,195,503 | 398,366 | 0 | 0 |
| 2007 | 1,150,503 | 340,144 | 0 | 0 |
| 2008 | 60,503 | 309,848 | 642,135 | 577,865 |
| 2009-2013 | 906,506 | 1,479,893 | 2,356,587 | 2,998,413 |
| 2014-2018 | 4,350,000 | 665,731 | 0 | 0 |
| Total | <u>\$9,814,020</u> | <u>\$4,158,744</u> | <u>\$2,998,722</u> | <u>\$3,576,278</u> |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

| Fiscal Year Ending June, 30 | Tax Anticipation Note | | Total | |
|--------------------------------|-----------------------|----------|--------------|-------------|
| | Principal | Interest | Principal | Interest |
| 2004 | \$400,000 | \$34,100 | \$1,425,502 | \$542,900 |
| 2005 | 420,000 | 11,550 | 1,545,503 | 467,512 |
| 2006 | 0 | 0 | 1,195,503 | 398,366 |
| 2007 | 0 | 0 | 1,150,503 | 340,144 |
| 2008 | 0 | 0 | 702,638 | 887,713 |
| 2009-2013 | 0 | 0 | 3,263,093 | 4,478,306 |
| 2014-2018 | 0 | 0 | 4,350,000 | 665,731 |
| Total | \$820,000 | \$45,650 | \$13,632,742 | \$7,780,672 |

Note 18 - Jointly Governed Organizations

A. Lake Erie Education Computer Association (LEECA)

The Lake Erie Education Computer Association (LEECA) is a jointly governed organization among thirty 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 these schools supports LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors chosen from the general membership of the LEECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. The Olmsted Falls City School District paid \$27,639 to LEECA in fiscal year 2003. Financial information can be obtained by contacting the Treasurer at the Lorain County Educational Service Center, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

B. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among 91 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003, the School District paid \$676 to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Rd., Suite 10, Independence, Ohio 44131.

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a 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 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.

C. Polaris Career Center

The Polaris Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the board of each participating school district. The board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. Olmsted Falls City School District students may attend the vocational school. Each school district's control is limited to its representation on the board. The School District did not contribute to Polaris Career Center during fiscal year 2003. Financial information can be obtained by contacting the Treasurer at the Polaris Career Center, 7285 Old Oak Boulevard, Middleburg Heights, Ohio 44130.

Note 19 - Insurance Purchasing Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or 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.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 20 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation refunds continues to be required to be set aside.

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

| | Textbooks Instructional Materials Reserve | Capital Improvement Reserve | Budget Reserve |
|--|--|-----------------------------------|-------------------|
| Set-aside Reserve Balances as of June 30, 2002 | (\$171,517) | \$0 | \$106,632 |
| Current Year Set-aside Requirement | 202,998 | 202,998 | 0 |
| Offsets During the Fiscal Year | 0 | (222,259) | 0 |
| Qualifying Disbursements | (690,413) | (1,463,175) | 0 |
| Totals | <u>(\$658,932)</u> | <u>(\$1,482,436)</u> | <u>\$106,632</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>(\$658,932)</u> | <u>\$0</u> | <u>\$106,632</u> |
| Set-aside Reserve Balances as of June 30, 2003 | <u>\$0</u> | <u>\$0</u> | <u>\$106,632</u> |

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

Note 21 - 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 decision 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 on its financial operations.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 22 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are 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 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 not a party to any legal proceedings.

Note 23 - Subsequent Event

On July 30, 2003, the School District issued general obligation bonds in the amount of \$5,709,978, at a rate of 2.0 percent to 14.065 percent, with a final maturity date of December 15, 2017, for the purpose of refunding classroom facilities improvement general obligation bonds.

This page intentionally left blank.

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|-------------------------------|----------------|----------------|----------------------|----------------|---------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| Food Donation | N/A | 10.550 | 0 | 68,718 | 0 | 68,718 |
| National School Breakfast Program | 046573 05-PU-03 | 10.553 | 13,363 | 0 | 13,363 | 0 |
| National School Lunch Program | 046573 LL-P4-03 | 10.555 | 117,985 | 0 | 117,985 | 0 |
| Total U.S. Department of Agriculture - Child Nutrition Cluster | | | 131,348 | 68,718 | 131,348 | 68,718 |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education Grants to States | 046573 6B-SF-02 | 84.027 | 31,292 | 0 | 51,647 | 0 |
| | 046573 6B-SF-03 | | 285,727 | 0 | 259,849 | 0 |
| Total CFDA | | | 317,019 | 0 | 311,496 | 0 |
| Special Education - Preschool Grant | 046573 PG-S1-02 | 84.173 | 0 | 0 | 413 | 0 |
| | 046573 PG-S1-03 | | 19,429 | 0 | 19,429 | 0 |
| Total CFDA | | | 19,429 | 0 | 19,842 | 0 |
| Total Special Education Cluster | | | 336,448 | 0 | 331,338 | 0 |
| Grants to Local Educational Agencies (ESEA Title I) | 046573 C1-S1-02 | 84.010 | 622 | 0 | 622 | 0 |
| | 046573 C1-S1-03 | | 53,103 | 0 | 53,103 | 0 |
| Total CFDA | | | 53,725 | 0 | 53,725 | 0 |
| Innovative Educational Program Strategies | 046573 C2-S1-02 | 84.298 | 5,956 | 0 | 8,170 | 0 |
| | 046573 C2-S1-03 | | 18,325 | 0 | 12,173 | 0 |
| Total CFDA | | | 24,281 | 0 | 20,343 | 0 |
| Drug-Free Schools Grant | 046573 DR-S1-02 | 84.186 | 3,600 | 0 | 4,964 | 0 |
| | 046573 DR-S1-03 | | 9,235 | 0 | 8,890 | 0 |
| Total CFDA | | | 12,835 | 0 | 13,854 | 0 |
| Goals 2000 | 046573 G2-SP-02 | 84.276 | 0 | 0 | 97 | 0 |
| Total CFDA | | | 0 | 0 | 97 | 0 |
| Eisenhower Professional Development | 046573 MS-S1-02 | 84.281 | 492 | 0 | 6,309 | 0 |
| Total CFDA | | | 492 | 0 | 6,309 | 0 |
| Class Size Reduction | 046573 CR-S1-02 | 84.340 | (76) | 0 | (76) | 0 |
| Total CFDA | | | (76) | 0 | (76) | 0 |
| School Renovation Assistive Technology | 046573 AT-S2-02 | 84.352A | 1,435 | 0 | 1,435 | 0 |
| | 046573 AT-S3-02 | | 4,209 | 0 | 1,162 | 0 |
| Total CFDA | | | 5,644 | 0 | 2,597 | 0 |
| Technology Literacy Challenge | 046573 TJ-S1-03 | 84.318 | 1,454 | 0 | 665 | 0 |
| Total CFDA | | | 1,454 | 0 | 665 | 0 |
| Improving Teacher Quality | 046573 TR-S1-03 | 84.367 | 54,552 | 0 | 45,213 | 0 |
| Total CFDA | | | 54,552 | 0 | 45,213 | 0 |
| Temporary Assistance for Needy Families | N/A | 93.558 | 8,526 | 0 | 8,526 | 0 |
| Total CFDA | | | 8,526 | 0 | 8,526 | 0 |
| Total Department of Education | | | 497,881 | 0 | 482,591 | 0 |
| Totals | | | 629,229 | 68,718 | 613,939 | 68,718 |

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

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FISCAL YEAR ENDED JUNE 30, 2003**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A— SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B— CHILD NUTRITION CLUSTER

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

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

N/A – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Education
Olmsted Falls City School District
Cuyahoga County
26937 Bagley Road
Olmsted Falls, Ohio 44138

We have audited the financial statements of the Olmsted Falls City School District, Cuyahoga County, Ohio (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 27, 2003, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34. 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*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated October 27, 2003.

Internal Control 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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated October 27, 2003.

This report is intended for the information and use of the audit committee, management, Board of Education, and 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.

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

Betty Montgomery
Auditor of State

October 27, 2003



Auditor of State Betty Montgomery

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

Board of Education
Olmsted Falls City School District
Cuyahoga County
26937 Bagley Road
Olmsted Falls, Ohio 44138

Compliance

We have audited the compliance of the Olmsted Falls City School District, Cuyahoga County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 program 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

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. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated October 27, 2003.

This report is intended for the information and use of the audit committee, management, Board of Education, and 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.



Betty Montgomery
Auditor of State

October 27, 2003

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Child Nutrition Cluster, CFDA 10.550, 10.553 & 10.555 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

OLMSTED FALLS 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
DECEMBER 18, 2003**