

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Cuyahoga Falls City School District
Summit County
431 Stow Avenue
Cuyahoga Falls, Ohio 44221

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate component unit and the aggregate remaining fund information of Cuyahoga Falls City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate component unit and the aggregate remaining fund information of Cuyahoga Falls City School District, Summit County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 and Note 8, the District's net assets and capital assets have been restated due to a reappraisal. In addition, the reporting entity of the District now includes two discretely presented component units.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702-1509
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 10, 2008

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The management's discussion and analysis of the Cuyahoga Falls City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$6,871,619 from a restated deficit of \$4,664,393 to a balance of \$2,207,226. This represents a 147.32% increase from the restated 2006 net assets.
- General revenues accounted for \$44,801,580 in revenue or 80.52% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,837,966 or 19.48% of total revenues of \$55,639,546.
- The District had \$48,767,927 in expenses related to governmental activities; only \$10,837,966 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$44,801,580 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$48,258,088 in revenues and \$43,615,579 in expenditures and other financing uses. The general fund increased \$4,642,509 from a deficit of \$3,263,781 to a balance of \$1,378,728.

Using these Basic Financial Statements

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The District reports one major fund, which is the general fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-15 of this report.

The government-wide financial statements include not only Cuyahoga Falls City School District itself (known as the primary government), but also two legally separate entities for which the District is financially accountable. Financial information for the component units, Schnee Learning Center and Cuyahoga Falls Schools Foundation, are reported separately from the financial information presented for the primary government itself.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented in one private-purpose trust fund. The District also acts in a trustee capacity as an agent for student managed activities and MEO/SERRC. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-50 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2007 and 2006. The net assets for the District were restated at June 30, 2006 as described in Note 3.A to the basic financial statements.

	Net Assets	
	Governmental Activities <u>2007</u>	Restated Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 34,446,029	\$ 32,847,340
Capital assets, net	<u>8,337,711</u>	<u>8,474,587</u>
Total assets	<u>42,783,740</u>	<u>41,321,927</u>
<u>Liabilities</u>		
Current liabilities	29,985,693	33,187,087
Long-term liabilities	<u>10,590,821</u>	<u>12,799,233</u>
Total liabilities	<u>40,576,514</u>	<u>45,986,320</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,220,712	1,802,224
Restricted	1,235,188	1,507,905
Unrestricted (deficit)	<u>(1,248,674)</u>	<u>(7,974,522)</u>
Total net assets	<u>\$ 2,207,226</u>	<u>\$ (4,664,393)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$2,207,226.

At year-end, capital assets represented 19.49% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$2,220,712. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. The increase in investment in capital assets net of related debt is due to the paying down of capital related debt during fiscal year 2007.

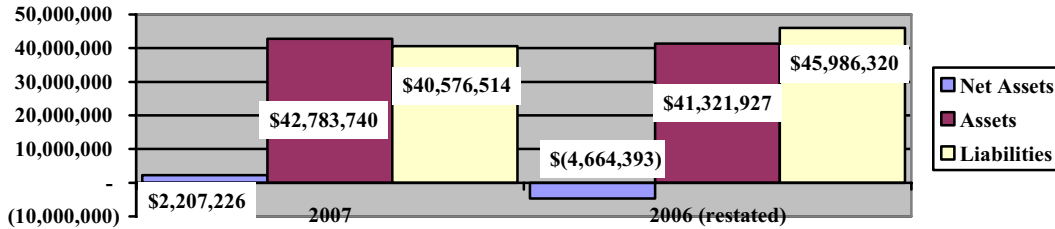
A portion of the District's net assets, \$1,235,188, represents resources that are subject to external restriction on how they may be used. The remaining unrestricted net assets balance is a deficit of \$1,248,674.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The table below illustrates the District's assets, liabilities and net assets at June 30, 2007 and 2006:

Governmental Activities



The table below shows the change in net assets for fiscal years 2007 and 2006. The net assets for the District were restated at June 30, 2006, as described in Note 3.A to the basic financial statements.

Change in Net Assets

	Governmental Activities 2007	Restated Governmental Activities 2006
Revenues		
Program revenues:		
Charges for services and sales	\$ 5,360,275	\$ 4,079,007
Operating grants and contributions	5,450,947	3,883,148
Capital grants and contributions	26,744	-
General revenues:		
Property taxes	29,390,443	25,064,587
Grants and entitlements	14,892,425	15,650,632
Investment earnings	467,000	237,635
Payment in lieu of taxes	26,870	24,549
Other	24,842	97,821
Total revenues	55,639,546	49,037,379

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	<u>2007</u>	<u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 20,340,257	\$ 19,912,957
Special	5,424,589	4,714,022
Vocational	980,201	929,595
Adult/continuing	-	534
Other	4,028,072	3,215,647
Support services:		
Pupil	2,305,408	2,144,731
Instructional staff	983,614	1,399,943
Board of education	96,350	70,625
Administration	3,307,258	2,789,236
Fiscal	873,522	832,473
Business	372,618	357,109
Operations and maintenance	4,598,143	4,570,464
Pupil transportation	1,167,701	1,223,129
Central	318,598	306,959
Operations of non-instructional services:		
Non-instructional services	49,029	885,620
Food service operations	1,527,206	1,597,444
Extracurricular activities	1,004,668	897,947
Intergovernmental pass through	988,708	-
Interest and fiscal charges	<u>401,985</u>	<u>492,936</u>
Total expenses	<u>48,767,927</u>	<u>46,341,371</u>
Change in net assets before special item	6,871,619	2,696,008
Special item: Gain on sale of capital assets	<u>-</u>	<u>516,128</u>
Change in net assets	6,871,619	3,212,136
Net assets at beginning of year (restated)	<u>(4,664,393)</u>	<u>(7,876,529)</u>
Net assets at end of year	<u>\$ 2,207,226</u>	<u>\$ (4,664,393)</u>

Governmental Activities

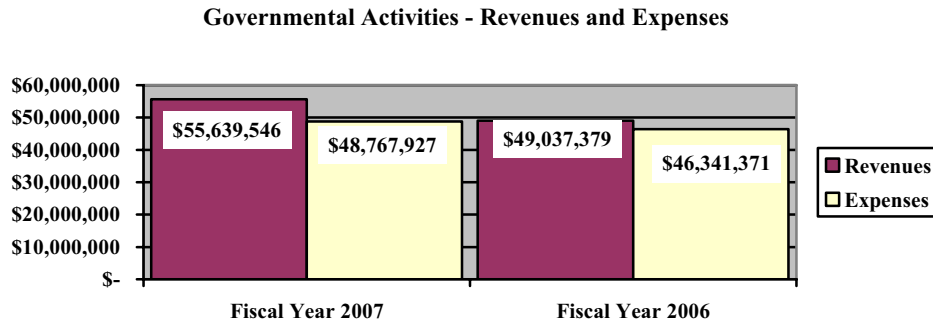
Net assets of the District's governmental activities increased \$6,871,619. Total governmental expenses of \$48,767,927 were offset by program revenues of \$10,837,966 and general revenues of \$44,801,580. Program revenues supported 22.22% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 79.59% of the total governmental revenue. Real estate property is reappraised every six years.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.



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

	Governmental Activities			
	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 20,340,257	\$ 16,149,974	\$ 19,912,957	\$ 17,203,512
Special	5,424,589	2,889,058	4,714,022	3,483,039
Vocational	980,201	765,669	929,595	850,252
Adult/continuing	-	-	534	(611)
Other	4,028,072	4,025,522	3,215,647	3,149,550
Support services:				
Pupil	2,305,408	2,121,760	2,144,731	2,026,798
Instructional staff	983,614	911,169	1,399,943	864,742
Board of education	96,350	95,721	70,625	70,625
Administration	3,307,258	3,154,761	2,789,236	2,783,951
Fiscal	873,522	873,522	832,473	832,473
Business	372,618	372,618	357,109	348,813
Operations and maintenance	4,598,143	3,987,829	4,570,464	4,152,300
Pupil transportation	1,167,701	965,409	1,223,129	1,197,185
Central	318,598	315,298	306,959	303,034
Operations of non-instructional services:				
Non-instructional services	49,029	5,923	885,620	(84,817)
Food service operations	1,527,206	115,716	1,597,444	73,597
Extracurricular activities	1,004,668	702,234	897,947	631,837
Intergovernmental pass through	988,708	75,793	-	-
Interest and fiscal charges	401,985	401,985	492,936	492,936
Total expenses	<u>\$ 48,767,927</u>	<u>\$ 37,929,961</u>	<u>\$ 46,341,371</u>	<u>\$ 38,379,216</u>

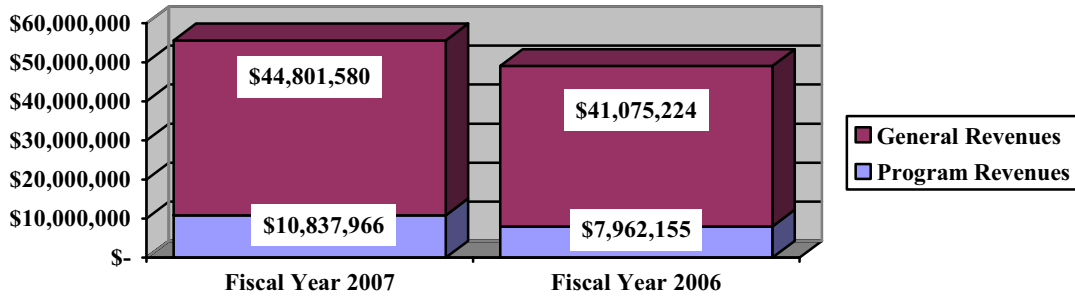
The dependence upon tax and other general revenues for governmental activities is apparent, 63.10% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.78%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$2,715,532, which is higher than last year's deficit of \$1,633,764. The overall increase in fund balance is due mainly to increased revenues exceeding increased expenditures. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance/(Deficit) <u>June 30, 2006</u>	Increase/ (Decrease)
General	\$ 1,378,728	\$ (3,263,781)	\$ 4,642,509
Other Governmental	<u>1,336,804</u>	<u>1,630,017</u>	<u>(293,213)</u>
Total	<u>\$ 2,715,532</u>	<u>\$ (1,633,764)</u>	<u>\$ 4,349,296</u>

General Fund

During fiscal year 2007, the District's general fund deficit decreased \$4,642,509 to a positive fund balance of \$1,378,728.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2007 <u>Amount</u>	2006 <u>Amount</u>	Increase\ Decrease	Percentage Change
<u>Revenues</u>				
Taxes	\$ 28,069,107	\$ 21,293,700	\$ 6,775,407	31.82 %
Tuition	2,818,303	1,777,166	1,041,137	58.58 %
Earnings on investments	467,000	224,380	242,620	108.13 %
Intergovernmental	16,381,493	15,575,848	805,645	5.17 %
Other revenues	<u>522,185</u>	<u>596,111</u>	<u>(73,926)</u>	(12.40) %
Total	<u>\$ 48,258,088</u>	<u>\$ 39,467,205</u>	<u>\$ 8,790,883</u>	22.27 %
<u>Expenditures</u>				
Instruction	\$ 28,426,702	\$ 26,628,752	\$ 1,797,950	6.75 %
Support services	13,672,612	12,901,045	771,567	5.98 %
Extracurricular activities	743,568	624,619	118,949	19.04 %
Non-instructional	9,718	-	9,718	100.00 %
Debt service	<u>-</u>	<u>587,017</u>	<u>(587,017)</u>	(100.00) %
Total	<u>\$ 42,852,600</u>	<u>\$ 40,741,433</u>	<u>\$ 2,111,167</u>	5.18 %

The most significant increase in revenues of the general fund is in the area of tax revenues. Tax revenues increased \$6,775,407 or 31.82%. This increase can be attributed to both the full collection of the latest tax levy and the latest update of property values. The increase of \$1,041,137 in tuition is due mainly to an increase in open enrollment. Intergovernmental revenue increased \$805,645 or 5.17%. This increase is due to personal property tax and public utility tax reimbursement from House Bill 66. The increase of 108.13% in earnings on investments is due to increased cash balances and increased interest rates earned on those bank accounts.

Overall, expenditures of the general fund increased \$2,111,167 or 5.18%. The increase in instructional and support service expenditures can be attributed to special education costs. The decrease in debt service can be attributed to the District paying off capital leases during fiscal year 2006.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$50,510,677 and final budgeted revenues and other financing sources were \$48,068,700. The original budgeted revenues were based on conservative estimates which were decreased during the year for a total decrease of \$2,441,977. Actual revenues and other financing sources for fiscal year 2007 were \$47,450,959. This represents a \$617,741 decrease from the final budgeted revenues, primarily due to a decrease in taxes and intergovernmental revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$42,699,045 were increased throughout the year by \$1,376,931 to \$44,075,976 in the final budget. The original appropriations were budgeted in accordance with estimated resources available on the original amended certificate of estimated resources which were based on estimates. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$43,952,117, which was \$123,859 less than the final budget appropriations.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had \$8,337,711 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2007 balances compared to 2006. The capital assets for the District were restated as described in Note 3.A to the basic financial statements.

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

	Governmental Activities	
	2007	Restated 2006
Land	\$ 1,296,507	\$ 1,266,507
Land improvements	625,117	680,788
Building and improvements	6,019,247	6,135,149
Furniture and equipment	131,559	100,928
Vehicles	265,281	291,215
Total	\$ 8,337,711	\$ 8,474,587

The overall decrease in capital assets of \$136,876 is due to current year depreciation of \$533,467 and capital outlays of \$396,591.

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

Debt Administration

At June 30, 2007, the District had \$7,976,999 in general obligation bonds, asbestos removal loans, IP phone system loans, and tax anticipation notes outstanding. Of this total, \$1,195,364 is due within one year and \$6,781,635 is due in more than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Governmental obligation bonds	\$ 5,768,000	\$ 6,202,000
Asbestos removal loan	144,999	171,363
IP phone system loan	204,000	299,000
Tax anticipation notes	1,860,000	3,100,000
Total	\$ 7,976,999	\$ 9,772,363

At June 30, 2007, the District had voted debt margin was \$65,769,584 and an unvoted debt margin of \$790,974.

See Note 9 to the basic financial statements for detail on the District's debt administration.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

Current Related Financial Activities

During fiscal year 2005, the District was placed in fiscal watch by the Auditor of the State of Ohio. A tax levy was passed in November 2004, and the District issued tax anticipation notes which are payable over the next five years. During fiscal year 2007, the District was removed from fiscal watch.

Another challenge facing the District is the future of state funding. 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 plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

The District's system of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Kathryn Sines, Treasurer, Cuyahoga Falls City School District, 431 Stow Avenue, Cuyahoga Falls, Ohio 44222-0396.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government	Component Units	
	Governmental Activities	Cuyahoga Falls Schools Foundation	Schnee Learning Center
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 7,104,630	\$ 485,864	\$ 157,888
Receivables:			
Taxes	26,679,946	-	-
Accounts	11,663	-	-
Intergovernmental	525,535	-	54,000
Prepayments	-	-	674
Materials and supplies inventory	124,255	-	-
Capital assets:			
Land	1,296,507	-	-
Depreciable capital assets, net	7,041,204	-	31,949
Total capital assets, net	8,337,711	-	31,949
 Total assets.	 42,783,740	 485,864	 244,511
Liabilities:			
Accounts payable.	191,293	-	-
Accrued wages and benefits	3,800,561	-	-
Pension obligation payable.	993,314	-	-
Intergovernmental payable	361,598	-	-
Unearned revenue	23,249,204	-	-
Accrued interest payable	27,086	-	-
Claims payable	1,362,637	-	-
Long-term liabilities:			
Due within one year.	1,619,188	-	-
Due in more than one year	8,971,633	-	-
 Total liabilities	 40,576,514	 -	 -
Net Assets:			
Invested in capital assets, net of related debt.	2,220,712	-	31,949
Restricted for:			
Capital projects	681,295	-	-
Debt service.	334,442	-	-
Locally funded programs.	28,415	-	-
State funded programs	60,664	-	-
Federally funded programs.	4,241	-	54,000
Student activities	115,131	-	-
Other purposes	11,000	-	-
Unrestricted (deficit)	(1,248,674)	485,864	158,562
 Total net assets	 \$ 2,207,226	 \$ 485,864	 \$ 244,511

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component Units	
					Governmental Activities	Cuyahoga Falls Schools Foundation	Schnee Learning Center
Governmental activities:							
Instruction:							
Regular	\$ 20,340,257	\$ 3,528,821	\$ 661,462	\$ -	\$ (16,149,974)	\$ -	\$ -
Special	5,424,589	6,074	2,529,457	-	(2,889,058)	-	-
Vocational	980,201	-	214,532	-	(765,669)	-	-
Other	4,028,072	2,550	-	-	(4,025,522)	-	-
Support services:							
Pupil	2,305,408	-	183,648	-	(2,121,760)	-	-
Instructional staff	983,614	5,420	67,025	-	(911,169)	-	-
Board of education	96,350	-	629	-	(95,721)	-	-
Administration	3,307,258	-	152,497	-	(3,154,761)	-	-
Fiscal	873,522	-	-	-	(873,522)	-	-
Business	372,618	-	-	-	(372,618)	-	-
Operations and maintenance	4,598,143	580,314	30,000	-	(3,987,829)	-	-
Pupil transportation	1,167,701	27,280	148,268	26,744	(965,409)	-	-
Central	318,598	-	3,300	-	(315,298)	-	-
Operation of non-instructional services:							
Non-instructional services	49,029	-	43,106	-	(5,923)	-	-
Food service operations	1,527,206	907,382	504,108	-	(115,716)	-	-
Extracurricular activities	1,004,668	302,434	-	-	(702,234)	-	-
Intergovernmental pass-through	988,708	-	912,915	-	(75,793)	-	-
Interest and fiscal charges	401,985	-	-	-	(401,985)	-	-
Total governmental activities	48,767,927	5,360,275	5,450,947	26,744	(37,929,961)	-	-
Component Units:							
Cuyahoga Falls Schools Foundation	61,976	-	167,456	-	-	105,480	-
Schnee Learning Center	1,066,620	4,420	394,335	-	-	-	(667,865)
Total component units	1,128,596	4,420	561,791	-	-	105,480	(667,865)
Totals	\$ 49,896,523	\$ 5,364,695	\$ 6,012,738	\$ 26,744	(37,929,961)	105,480	(667,865)
General Revenues:							
Property taxes levied for:							
General purposes					28,326,393	-	-
Debt service					1,064,050	-	-
Grants and entitlements not restricted to specific programs					14,892,425	-	918,521
Investment earnings					467,000	11,502	-
Payment in lieu of taxes					26,870	-	-
Miscellaneous					24,842	-	11,998
Total general revenues					44,801,580	11,502	930,519
Change in net assets					6,871,619	116,982	262,654
Net assets (deficit) at beginning of year (restated See Note 3)					(4,664,393)	368,882	(18,143)
Net assets at end of year					\$ 2,207,226	\$ 485,864	\$ 244,511

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,253,324	\$ 1,529,890	\$ 5,783,214
Receivables:			
Taxes	26,078,077	601,869	26,679,946
Accounts	5,345	6,318	11,663
Intergovernmental	414,527	111,008	525,535
Materials and supplies inventory	88,890	35,365	124,255
Total assets	\$ 30,840,163	\$ 2,284,450	\$ 33,124,613
Liabilities:			
Accounts payable	\$ 122,547	\$ 68,746	\$ 191,293
Accrued wages and benefits	3,652,405	148,156	3,800,561
Compensated absences payable	422,572	-	422,572
Pension obligation payable.	931,137	62,177	993,314
Intergovernmental payable.	310,390	51,208	361,598
Deferred revenue.	1,363,117	27,422	1,390,539
Unearned revenue.	22,659,267	589,937	23,249,204
Total liabilities	29,461,435	947,646	30,409,081
Fund Balances:			
Reserved for encumbrances	120,553	32,320	152,873
Reserved for materials and supplies inventory.	88,890	35,365	124,255
Reserved for property tax unavailable for appropriation	2,331,952	43,772	2,375,724
Unreserved, undesignated (deficit), reported in:			
General fund	(1,162,667)	-	(1,162,667)
Special revenue funds.	-	237,891	237,891
Debt service fund	-	306,161	306,161
Capital projects funds.	-	681,295	681,295
Total fund balances (deficit)	1,378,728	1,336,804	2,715,532
Total liabilities and fund balances	\$ 30,840,163	\$ 2,284,450	\$ 33,124,613

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	2,715,532
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			8,337,711
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	996,046	
Intergovernmental		15,827	
Tuition		378,666	
Total		1,390,539	1,390,539
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			(41,221)
In the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(27,086)
Long-term liabilities, including bonds, notes and loans payable are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(2,191,250)	
General obligation bonds payable		(5,768,000)	
Loans payable		(348,999)	
Tax anticipation note payable		(1,860,000)	
Total		(10,168,249)	(10,168,249)
Net assets of governmental activities		\$	2,207,226

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 28,069,107	\$ 1,064,691	\$ 29,133,798
Tuition.	2,818,303	50	2,818,353
Charges for services.	-	907,382	907,382
Transportation fees	27,280	-	27,280
Earnings on investments.	467,000	9,523	476,523
Classroom materials and fees	400	153,479	153,879
Extracurricular.	47,735	412,116	459,851
Rentals.	-	557,193	557,193
Other local revenues.	446,770	138,802	585,572
Intergovernmental - Intermediate	-	600	600
Intergovernmental - State	16,381,493	1,215,187	17,596,680
Intergovernmental - Federal.	-	2,631,282	2,631,282
Total revenues.	48,258,088	7,090,305	55,348,393
Expenditures:			
Current:			
Instruction:			
Regular	19,379,696	983,464	20,363,160
Special	4,079,514	1,393,369	5,472,883
Vocational	939,420	66,417	1,005,837
Other.	4,028,072	-	4,028,072
Support services:			
Pupil.	2,166,704	169,224	2,335,928
Instructional staff	910,497	79,894	990,391
Board of education	95,710	640	96,350
Administration.	3,173,932	152,318	3,326,250
Fiscal	848,927	24,282	873,209
Business	371,924	-	371,924
Operations and maintenance	4,618,000	30,000	4,648,000
Pupil transportation	1,171,150	-	1,171,150
Central.	315,768	3,300	319,068
Operation of non-instructional services:			
Non-instructional services.	9,718	43,367	53,085
Food service operations	-	1,524,840	1,524,840
Extracurricular activities	743,568	209,769	953,337
Intergovernmental pass-through	-	1,022,455	1,022,455
Facilities acquisition and construction	-	237,719	237,719
Debt service:			
Principal retirement	-	1,795,364	1,795,364
Interest and fiscal charges	-	410,075	410,075
Total expenditures	42,852,600	8,146,497	50,999,097
Excess (deficiency) of revenues over (under) expenditures.	5,405,488	(1,056,192)	4,349,296
Other financing sources (uses):			
Transfers in	-	762,979	762,979
Transfers (out)	(762,979)	-	(762,979)
Total other financing sources (uses)	(762,979)	762,979	-
Net change in fund balances	4,642,509	(293,213)	4,349,296
Fund balances (deficit) at beginning of year	(3,263,781)	1,630,017	(1,633,764)
Fund balances at end of year.	\$ 1,378,728	\$ 1,336,804	\$ 2,715,532

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	4,349,296
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 396,591	
Current year depreciation	<u>(533,467)</u>	
Total		(136,876)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	283,515	
Tuition	(8,189)	
Intergovernmental	<u>15,827</u>	
Total		291,153
 Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets.		
		1,795,364
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
		8,090
 Some expenses, such as compensated absences reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		
		403,197
 Internal service fund is used by management to charge the cost of insurance to individual funds and related internal service fund revenues are eliminated. The net revenues (expenses) of the internal service fund are allocated among the governmental activities.		
		<u>161,395</u>
Change in net assets of governmental activities	\$	<u>6,871,619</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 28,806,024	\$ 27,408,058	\$ 27,054,418	\$ (353,640)
Tuition.	2,988,387	2,843,359	2,806,672	(36,687)
Transportation fees.	29,964	28,510	28,142	(368)
Earnings on investments.	497,235	473,104	467,000	(6,104)
Extracurricular.	50,826	48,359	47,735	(624)
Classroom materials and fees	426	405	400	(5)
Other local revenues	475,355	452,286	446,450	(5,836)
Intergovernmental - Intermediate.	28,234	26,864	26,517	(347)
Intergovernmental - State	17,442,094	16,595,623	16,381,493	(214,130)
Total revenues.	<u>50,318,545</u>	<u>47,876,568</u>	<u>47,258,827</u>	<u>(617,741)</u>
Expenditures:				
Current:				
Instruction:				
Regular	19,183,022	19,419,485	19,363,841	55,644
Special.	3,934,389	3,982,887	3,971,474	11,413
Vocational.	910,974	922,204	919,561	2,643
Other.	4,012,332	4,061,791	4,050,152	11,639
Support services:				
Pupil.	2,148,840	2,175,328	2,169,095	6,233
Instructional staff	897,953	909,022	906,417	2,605
Board of education	93,511	94,663	94,392	271
Administration.	3,187,154	3,226,441	3,217,196	9,245
Fiscal	843,889	854,291	851,843	2,448
Business	371,133	375,708	374,631	1,077
Operations and maintenance.	4,842,932	4,902,629	4,888,581	14,048
Pupil transportation	1,169,134	1,183,545	1,180,154	3,391
Central.	378,170	382,832	381,735	1,097
Operation of non-instructional services	7,850	7,947	7,924	23
Extracurricular activities.	717,762	726,610	724,528	2,082
Total expenditures	<u>42,699,045</u>	<u>43,225,383</u>	<u>43,101,524</u>	<u>123,859</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>7,619,500</u>	<u>4,651,185</u>	<u>4,157,303</u>	<u>(493,882)</u>
Other financing sources (uses):				
Transfers in	87,614	87,614	87,614	-
Transfers (out)	-	(850,593)	(850,593)	-
Refund of prior year expenditures	104,518	104,518	104,518	-
Total other financing sources (uses)	<u>192,132</u>	<u>(658,461)</u>	<u>(658,461)</u>	<u>-</u>
Net change in fund balance	7,811,632	3,992,724	3,498,842	(493,882)
Fund balance at beginning of year.	497,137	497,137	497,137	-
Prior year encumbrances appropriated	83,045	83,045	83,045	-
Fund balance at end of year	<u>\$ 8,391,814</u>	<u>\$ 4,572,906</u>	<u>\$ 4,079,024</u>	<u>\$ (493,882)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 1,321,416
Total assets	1,321,416
Liabilities:	
Claims payable	1,362,637
Total liabilities	1,362,637
Net assets:	
Unrestricted (deficit)	(41,221)
Total net assets (deficit)	\$ (41,221)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 5,766,481
Total operating revenues	<u>5,766,481</u>
 Operating expenses:	
Purchased services	33,284
Claims expense	<u>5,571,802</u>
Total operating expenses	<u>5,605,086</u>
 Operating income/change in net assets	 <u>161,395</u>
 Net assets (deficit) at beginning of year	 <u>(202,616)</u>
 Net assets (deficit) at end of year.	 <u><u>\$ (41,221)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from charges for services	\$ 5,766,481
Cash payments for purchased services	(33,284)
Cash payments for claims.	<u>(4,968,746)</u>
Net cash provided by operating activities	<u>764,451</u>
Net increase in cash and cash equivalents	764,451
Cash and cash equivalents at beginning of year. . .	<u>556,965</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,321,416</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 161,395
Changes in assets and liabilities: Increase in claims payable	<u>603,056</u>
Net cash provided by operating activities	<u><u>\$ 764,451</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 36,332	\$ 102,016
Total assets.	<u>36,332</u>	<u>\$ 102,016</u>
Liabilities:		
Accounts payable.	-	\$ 1,527
Due to others	-	36,141
Due to students	<u>-</u>	<u>64,348</u>
Total liabilities	<u>-</u>	<u>\$ 102,016</u>
Net Assets:		
Held in trust for scholarships	<u>36,332</u>	
Total net assets	<u>\$ 36,332</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 3,634
Gifts and contributions.	500
	4,134
Deductions:	
Scholarships awarded	3,281
	853
Change in net assets	853
Net assets at beginning of year.	35,479
Net assets at end of year	\$ 36,332

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Cuyahoga Falls City School District (the "District") is located in the greater metropolitan Akron area of Summit County in northeastern Ohio. The first official body designated as the Cuyahoga Falls Board of Education was formed on April 18, 1853. Both the township of Cuyahoga Falls and Cuyahoga Falls School District were formalized at that time with a school enrollment of 482.

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

The District currently operates 6 elementary schools, 2 middle schools, and 1 comprehensive high school. The District employs 236 non-certified and 388 certified full-time and part-time employees to provide services to approximately 4,939 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, community services and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has two component units. The basic financial statements of the reporting entity include only those of the District (the primary government) and the following discretely presented component units.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The following organizations are described due to their relationship to the District:

DISCRETELY PRESENTED COMPONENT UNITS

Cuyahoga Falls Schools Foundation (Foundation)

The Foundation is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Foundation was set up to provide scholarships to eligible students of the District, provide grants to faculty members of the District and to provide the District with resources to complete special projects. The Foundation is governed by a Board of Trustees. Due to the Foundation's relationship with the District, the Foundation is reflected as a component unit of the District. Financial information can be obtained from the Treasurer of the Foundation at 431 Stow Avenue, Cuyahoga Falls, Ohio 44222-0396.

Schnee Learning Center (Center)

The Center is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Center is a conversion school with an objective to deliver a comprehensive educational program of high quality, tied to State and national standards for at-risk students, which can be delivered to students in grade 6 through grade 12. The Center is governed by a Board of Trustees. The Board of Trustees may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. Based on the significant services provided by the District to Center, the Center's purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Trustees of the Center, the Center is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Center at 431 Stow Avenue, Cuyahoga Falls, Ohio 44222-0396.

Information in the following notes to the basic financial statements is applicable to the primary government.

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Network for Educational Technology (NEOnet)

NEOnet is a jointly governed organization among sixteen school districts and the Summit County Educational Service Center that was formed July 1, 1995. NEOnet was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to improve administrative and instructional functions of member districts. The seven-member board of directors consists of four superintendents, two members of the treasurers' committee and one member of the student services subcommittee. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of NEOnet including budgeting, appropriating, contracting and designating management. All revenues are generated from State funding and an annual fee per student to participating districts. The Summit County Educational Service Center is the fiscal agent of NEOnet. Financial information is available from the Treasurer of the Summit County Educational Service Center, 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221. During the current fiscal year, the School District contributed \$11,566 to NEOnet.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Six District Educational Compact (Compact)

The Six District Educational Compact is a jointly governed organization consisting of six participating school districts, to provide for the vocational and special education needs of their students. The six-member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the six school districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district, which offers the class. The committee exercises total control over the operation of the Compact, including budgeting, appropriating, contracting and designating management. All financial inquiries should be addressed to the Treasurer of the Hudson City School District, 2386 Aurora Road, Hudson, Ohio 44236.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's only internal service fund accounts for revenue received from other funds for the settlement of medical expenses of District employees.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. During fiscal year 2007, the District had two agency funds that account for student managed activities and MEO/SERRC.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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 this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

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

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2007 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Summit County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Certificate of Estimated Resources issued for fiscal year 2007.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level for all funds, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

- Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed appropriations totals.
5. Any revisions that alter the total of any fund appropriation at the legal level of control must be approved by the Board of Education.
 6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
 7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. The original budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts. The final budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
 8. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the general fund during fiscal year 2007 amounted to \$467,000 which includes \$246,926 assigned from other District funds.

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

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

G. Inventory

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset life are not.

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

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." These amounts are eliminated in the governmental type activities columns of the statement of net assets. The District had no interfund loans at June 30, 2007.

J. Compensated Absences

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

The District reports pension health care benefits in accordance with the provisions of GASB Statement No. 47, "Accounting for Termination Benefits". Health care benefits are accrued as a liability once the District becomes obligated for the termination benefits. The liability is calculated based on estimated monthly health care costs incurred.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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 proprietary fund financial statements.

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

L. Fund Balance Reserves

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

M. Estimates

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes include amounts restricted for the underground storage fund (a nonmajor governmental fund).

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type occurred during the fiscal year.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Net Assets

The District has presented a correction to capital assets due to errors and omission as previously reported following a reappraisal of the District's capital assets which affects net assets as follows:

	<u>Total</u>
Net assets, June 30, 2006	\$ (1,953,536)
Restatement of capital assets	<u>(2,710,857)</u>
Restated net assets, June 30, 2006	<u>\$ (4,664,393)</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balance

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
EMIS	\$ 6,287
Ohio Reads	401
Poverty Based Assistance	17,035
Title VI-B	92,994
Title III	321
Title I	43,476
Drug Free Schools	64
Preschool	984
Improving Teacher Quality	1,097

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 items (1) and (2) above 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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the 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.

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

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$(108,899), exclusive of the \$675,000 repurchase agreement included in investments below. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, the District's entire bank balance of \$12,189 was covered by Federal Deposit Insurance Corporation.

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 675,000	\$ 675,000
STAR Ohio	<u>6,676,877</u>	<u>6,676,877</u>
	<u>\$ 7,351,877</u>	<u>\$ 7,351,877</u>

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the District's \$675,000 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 675,000	9.18
STAR Ohio	<u>6,676,877</u>	<u>90.82</u>
	<u>\$ 7,351,877</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (108,899)
Investments	<u>7,351,877</u>
Total	<u>\$ 7,242,978</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 7,104,630
Private-purpose trust funds	36,332
Agency funds	<u>102,016</u>
Total	<u>\$ 7,242,978</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General fund	\$ <u>762,979</u>
Total Transfers	<u>\$ 762,979</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer from the general fund to the debt service fund (a nonmajor governmental fund) is for the retirement of debt obligations.

Interfund transfers between governmental funds are eliminated for reporting purposes in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid 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 year 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES – (CONTINUED)

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

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2007-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the 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 unearned revenue.

The amount available as an advance at June 30, 2007 was \$2,331,952 in the general fund and \$43,772 in the debt service fund (a nonmajor governmental fund). These amounts have been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$1,446,187 in the general fund and \$48,372 in the debt service fund (a nonmajor governmental fund).

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

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

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 789,427,980	95.69	\$ 788,120,890	96.54
Public Utility Personal	8,498,290	1.03	7,644,730	0.94
Tangible Personal Property	<u>27,037,193</u>	<u>3.28</u>	<u>20,595,674</u>	<u>2.52</u>
Total	<u>\$ 824,963,463</u>	<u>100.00</u>	<u>\$ 816,361,294</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$65.10		\$69.74	

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 26,679,946
Accounts	11,663
Intergovernmental	<u>525,535</u>
Total	<u>\$ 27,217,144</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions previously reported. See Note 3.A. for detail:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>June 30, 2006</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 1,701,913	\$ (435,406)	\$ 1,266,507
Total capital assets, not being depreciated	<u>1,701,913</u>	<u>(435,406)</u>	<u>1,266,507</u>
Capital assets, being depreciated:			
Land improvements	2,253,817	(96,069)	2,157,748
Buildings and improvements	22,064,443	(621,582)	21,442,861
Furniture and equipment	4,844,416	(3,933,587)	910,829
Vehicles	<u>1,397,606</u>	<u>(26,352)</u>	<u>1,371,254</u>
Total capital assets, being depreciated	<u>30,560,282</u>	<u>(4,677,590)</u>	<u>25,882,692</u>
<i>Less: accumulated depreciation:</i>	<u>(21,076,751)</u>	<u>2,402,139</u>	<u>(18,674,612)</u>
Governmental activities capital assets, net	<u>\$ 11,185,444</u>	<u>\$ (2,710,857)</u>	<u>\$ 8,474,587</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS – (Continued)

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

	Restated Balance at <u>June 30,2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>June 30,2007</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,266,507	\$ 30,000	\$ -	\$ 1,296,507
Total capital assets, not being depreciated	<u>1,266,507</u>	<u>30,000</u>	<u>-</u>	<u>1,296,507</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,157,748	-	-	2,157,748
Buildings and improvements	21,442,861	234,697	-	21,677,558
Furniture and equipment	910,829	56,806	-	967,635
Vehicles	1,371,254	75,088	-	1,446,342
Total capital assets, being depreciated	<u>25,882,692</u>	<u>366,591</u>	<u>-</u>	<u>26,249,283</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,476,960)	(55,671)	-	(1,532,631)
Buildings and improvements	(15,307,712)	(350,599)	-	(15,658,311)
Furniture and equipment	(809,901)	(26,175)	-	(836,076)
Vehicles	(1,080,039)	(101,022)	-	(1,181,061)
Total accumulated depreciation	<u>(18,674,612)</u>	<u>(533,467)</u>	<u>-</u>	<u>(19,208,079)</u>
Governmental activities capital assets, net	<u>\$ 8,474,587</u>	<u>\$ (136,876)</u>	<u>\$ -</u>	<u>\$ 8,337,711</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 327,449

Support Services:

Pupil	1,117
Administration	3,934
Operations and maintenance	22,704
Pupil transportation	122,406
Extracurricular activities	49,568
Food service operations	6,289
Total depreciation expense	<u>\$ 533,467</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	Balance at June 30, 2006	Increase	Decrease	Balance at June 30, 2007	Amounts Due in One Year
General Obligation Bonds:					
1999 school improvement bonds	\$ 5,935,000	\$ -	\$ (345,000)	\$ 5,590,000	\$ 360,000
2002 school improvement bonds	<u>267,000</u>	<u>-</u>	<u>(89,000)</u>	<u>178,000</u>	<u>89,000</u>
Total General Obligation Bonds	<u>6,202,000</u>	<u>-</u>	<u>(434,000)</u>	<u>5,768,000</u>	<u>449,000</u>
Long-term Loans:					
2002 IP phone system loan	299,000	-	(95,000)	204,000	100,000
1993 asbestos removal loan	<u>171,363</u>	<u>-</u>	<u>(26,364)</u>	<u>144,999</u>	<u>26,364</u>
Total Loans Payable	<u>470,363</u>	<u>-</u>	<u>(121,364)</u>	<u>348,999</u>	<u>126,364</u>
Tax Anticipation Notes:					
TANs 4.27%	<u>3,100,000</u>	<u>-</u>	<u>(1,240,000)</u>	<u>1,860,000</u>	<u>620,000</u>
Other Long-term Obligations:					
Compensated absences	<u>3,026,870</u>	<u>61,889</u>	<u>(474,937)</u>	<u>2,613,822</u>	<u>423,824</u>
Total Other Long-term Obligations	<u>3,026,870</u>	<u>61,889</u>	<u>(474,937)</u>	<u>2,613,822</u>	<u>423,824</u>
Total	<u>\$ 12,799,233</u>	<u>\$ 61,889</u>	<u>\$ (2,270,301)</u>	<u>\$ 10,590,821</u>	<u>\$ 1,619,188</u>

General Obligation Bonds: In 1999 and 2002, the District issued School Improvement bonds, in the amount of \$8,000,000 and \$620,000 respectively, to finance the improvement and furnishing of school facilities and their sites. The School Improvement bonds will be repaid with voted property tax receipts of the bond retirement debt service fund, and will mature in December 2018 and December 2008, respectively. These bonds were retired during the fiscal year with voted property tax receipts of the debt service fund (a nonmajor governmental fund).

Long-term Loans: In 1993, the District received a loan from the U.S. Environmental Protection Agency for an asbestos abatement project. The loan, scheduled to mature in April 2013, is interest free as long as the District continues to remain current on repayment. Principal payments will be made with the general property tax operating levy receipts into the bond retirement debt service fund. In March 2002, the District entered into an IP Phone System loan agreement to finance the installation of a modern phone system throughout the District. The loan, scheduled to mature in December 2008, will be repaid with the general property tax operating levy receipts into the debt service fund (a nonmajor governmental fund).

Tax Anticipation Notes: During 2005, the District issued \$3,100,000 in tax anticipation notes to be repaid over the next five years with tax revenues generated by a tax levy passed November 2004. The notes mature in December 2010, and will be paid from the general fund.

All bonds, loans and notes are direct obligations of the District for which its full faith and credit are pledged for repayment.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Compensated Absences: Compensated absences included severance, vacation and health care benefits for retirees. Compensated absences will be paid from the fund from which the employee's salaries are paid. For the District, these are primarily the general fund, the food service fund (a nonmajor governmental fund), the Title VI-B fund (a nonmajor governmental fund) and the Title I fund (a nonmajor governmental fund).

- B.** The following is a summary of the future debt service requirements to maturity for the general obligation bonds and loans:

Fiscal Year Ending June 30	General Obligation Bonds			Long-term loans		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 449,000	\$ 262,742	\$ 711,742	\$ 126,364	\$ 6,498	\$ 132,862
2009	464,000	244,308	708,308	130,364	21,961	152,325
2010	390,000	226,445	616,445	26,363	-	26,363
2011	405,000	207,940	612,940	26,364	-	26,364
2012	425,000	185,011	610,011	26,364	-	26,364
2013 - 2017	2,475,000	577,059	3,052,059	13,180	-	13,180
2018 - 2020	1,160,000	56,400	1,216,400	-	-	-
Total	<u>\$ 5,768,000</u>	<u>\$ 1,759,905</u>	<u>\$ 7,527,905</u>	<u>\$ 348,999</u>	<u>\$ 28,459</u>	<u>\$ 377,458</u>

Fiscal Year Ending June 30	Tax Anticipation Notes		
	Principal	Interest	Total
2008	\$ 620,000	\$ 92,659	\$ 712,659
2009	620,000	66,185	686,185
2010	620,000	39,711	659,711
Total	<u>\$ 1,860,000</u>	<u>\$ 198,555</u>	<u>\$ 2,058,555</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$65,769,584 (including available funds of \$349,933) and an unvoted debt margin of \$790,974.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - RISK MANAGEMENT

A. General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carrier. Indiana Insurance settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction of coverage from the prior years. Limits of coverage and deductibles are as follows:

	<u>Coverage</u>	<u>Deductible</u>
Property Insurance	\$ 122,902,580	\$ 5,000
Liability Insurance	1,000,000/5,000,000	0/0
Auto Insurance	5,000,000	250 Comprehensive 500 Collision

B. Health Insurance

The claims liability of \$1,362,637 reported in the basic financial statements at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claim. A summary of changes in self-insurance claims for the years ended June 30, 2007 and June 30, 2006:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2007	\$ 759,581	\$ 5,571,802	\$ (4,968,746)	\$ 1,362,637
2006	644,006	5,208,269	(5,092,694)	759,581

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$610,116, \$674,400, and \$682,296, respectively, 47.99% has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005, \$317,352 represents the unpaid portion for 2007.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 11 - PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$2,595,821, \$2,544,669, and \$2,768,914, 83.38% has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$431,377 represents the unpaid portion for 2007. Contributions to the DC and Combined Plans for fiscal year 2007 were \$37,457 made by the District and \$92,815 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$199,679 for fiscal year 2007.

All STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$301,562 to fund health care benefits, including the surcharge.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

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

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 3,498,842
Net adjustment for revenue accruals	999,261
Net adjustment for expenditure accruals	74,624
Net adjustment for other sources/uses	(104,518)
Adjustment for encumbrances	<u>174,300</u>
GAAP basis	<u>\$ 4,642,509</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 such disallowed claims will not have a material effect on the financial position of the District at June 30, 2007.

B. Litigation

The District is not a party to legal proceedings at June 30, 2007.

NOTE 15 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>
Set-aside balance as of June 30, 2006	\$ (256,529)	\$ -
Current year set-aside requirement	761,308	761,308
Qualifying disbursements	<u>(626,547)</u>	<u>(1,441,763)</u>
Total	<u>\$ (121,768)</u>	<u>\$ (680,455)</u>
Balance carried forward to FY 2008	<u>\$ (121,768)</u>	<u>\$ -</u>

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero. The negative amount may be carried forward to the next year for the textbook set-aside, however, the negative amount may not be carried forward for the capital maintenance set-aside.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
National School Breakfast Program	N/A	10.553	\$ 33,587		\$ 33,587	
National School Lunch Program	N/A	10.555	446,370		446,370	
Total Child Nutrition Cluster			<u>479,957</u>		<u>479,957</u>	
Food Donation Program	N/A	10.550		\$ 42,937		\$ 42,937
Total U.S. Department of Agriculture			<u>479,957</u>	<u>42,937</u>	<u>479,957</u>	<u>42,937</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-07, 6B-EC-05	84.027	1,398,942		1,426,074	
Special Education - Preschool Grant	PG-S1-07	84.173	30,365		30,365	
Total Special Education Cluster			<u>1,429,307</u>		<u>1,456,439</u>	
Title I Grants to Local Educational Agencies	C1-S1-07	84.010	414,062		414,062	
High School Critical Transition	20-A0-05	84.048	10,000		83,287	
Innovative Education Program Strategies	C2-S1-07	84.298	9,179		9,179	
Safe and Drug Free Schools and Communities - State Grants	DR-S1-07	84.186	13,918		13,918	
English Language Acquisition Grant	T3-S1-07	84.365	27,840		27,840	
Technology Literacy Challenge Fund Grant	TJ-S1-07	84.318	4,308		4,308	
Improving Teacher Quality State Grant	TR-S1-07	84.367	167,694		167,694	
Total U.S. Department of Education			<u>2,076,308</u>		<u>2,176,727</u>	
Totals			<u>\$ 2,556,265</u>	<u>\$ 42,937</u>	<u>\$ 2,656,684</u>	<u>\$ 42,937</u>

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Mary Taylor, CPA

Auditor of State

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

Cuyahoga Falls City School District
Summit County
431 Stow Avenue
Cuyahoga Falls, Ohio 44221

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate component unit and the aggregate remaining fund information of the Cuyahoga Falls City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2008, wherein we noted the District restated net assets/capital assets and the reporting entity has changed to include two discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

We noted certain matters that we reported to the District's management in a separate letter dated January 10, 2008.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated January 10, 2008.

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



Mary Taylor, CPA
Auditor of State

January 10, 2008



Mary Taylor, CPA

Auditor of State

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

Cuyahoga Falls City School District
Summit County
431 Stow Avenue
Cuyahoga Falls, Ohio 44221

To the Board of Education:

Compliance

We have audited the compliance of Cuyahoga Falls City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Cuyahoga Falls City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

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

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

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 10, 2008.

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



Mary Taylor, CPA
Auditor of State

January 10, 2008

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	10.553/10.555 - Nutrition Cluster and 84.010 – Title I Grants to Local Education Agencies
<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 AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Capital Assets	No	Partially Corrected – See Management Letter
2006-002	Ohio Rev. Code Section 5705.41(B)	No	Partially Corrected – See Management Letter



Mary Taylor, CPA
Auditor of State

CUYAHOGA FALLS CITY SCHOOL DISTRICT

SUMMIT 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
FEBRUARY 12, 2008**