

**Olmsted Falls City School District
Cuyahoga County**

Fiscal Emergency Termination

Local Government Services Division

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FISCAL EMERGENCY TERMINATION**

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CERTIFICATION

Pursuant to a request to the Auditor of State by the Olmsted Falls City School District Financial Planning and Supervision Commission, the Auditor of State has determined that the Olmsted Falls City School District no longer meets the fiscal emergency conditions set forth in Section 3316.03 (B), Revised Code, and the Olmsted Falls City School District has met the requirements of Section 3316.16, Revised Code, for termination of the Olmsted Falls City School District Financial Planning and Supervision Commission. Therefore, the existence of the Olmsted Falls City School District Financial Planning and Supervision Commission and its role in the operation of the Olmsted Falls City School District is terminated as of August 25, 2000.

At the time of termination of the Commission, an effective financial accounting and reporting system has not been fully implemented. Section 3316.16(E), Revised Code, requires the Auditor of State to monitor the progress of implementation and exercise authority under this section and Chapter 117, Revised Code, to secure full implementation within two years.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to the Olmsted Falls City School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Frank Russo, Cuyahoga County Auditor, and Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

August 25, 2000

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**Report on Termination of the Olmsted Falls City School District
Financial Planning and Supervision Commission**

At the request of the Financial Planning and Supervision Commission (The Commission) of the Olmsted Falls City School District (The School District), Cuyahoga County, the Auditor of State has performed an analysis in order to make a determination as to whether this Commission and its functions should be terminated.

The Declaration of Fiscal Emergency

Section 3316.02(B)(2) of the Ohio Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal emergency if the district board of education fails, pursuant to Section 3316.04 of the Ohio Revised Code, to submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of a fiscal watch.

The Auditor of State conducted an analysis of the Olmsted Falls City School District, dated February 11, 1999, to determine whether the School District met the conditions for fiscal watch. The results of the analysis were as follows:

- The Auditor of State certified an operating deficit for the general fund in the amount of \$2,157,000, which exceeded eight percent of the general fund revenues of the prior fiscal year;
- The Olmsted Falls City School District's unencumbered cash balance for the preceding fiscal year was \$1,192,000, which was less than eight percent of the preceding fiscal year expenditures; and,
- The School District had not passed a levy that would eliminate the first two conditions.

On March 22, 1999, the Auditor of State declared the Olmsted Falls City School District in Fiscal Emergency based on the Board of Education's resolution, dated December 17, 1998, which declared that the Olmsted Falls Board of Education would not be able to submit a financial plan acceptable to the State Superintendent of Public Instruction within 120 days of the Auditor's declaration of a fiscal watch made pursuant to Section 3316.03 of the Ohio Revised Code.

Under Section 3316.16 of the Ohio Revised Code, a school district financial planning and supervision commission, once established, will continue in existence until the Auditor of State, or the commission itself, determines the following:

- An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
- All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
- The objectives of the financial recovery plan are being met; and,

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- The school district has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse."

The results of the analysis performed by the Auditor of State in determining if the Commission will continue to exist is as follows:

The Financial Accounting and Reporting Systems

We obtained and reviewed the June 22, 1999 financial accounting report, the fiscal year 1999 audit report and management letter prepared by the Auditor of State. We also observed and interviewed various School District personnel regarding current practices and procedures. A summary of the School District's progress follows:

Governance Overview

In process of implementation

- The School District should establish an audit committee to act as an informed, vigilant, and effective overseer of the financial reporting process.

Budgetary Process

- The School District's five year financial forecast and accompanying assumptions approved by the Board of Education and Financial Planning and Supervision Commission on February 25, 2000 indicates that the effects of the 12.9 mill operating levy passed on February 2, 1999 on operations of the School District have been incorporated into the School District's five year financial forecast.
- The School District currently monitors its budgeted revenues on a monthly basis making certain that the budgeted revenues do not exceed the amounts on the amended certificate of estimated resources. When necessary, a new amended certificate is requested.
- The School District is also adopting its appropriations in compliance with Section 5705.39 of the Ohio Revised Code, which prohibits total appropriations of each fund from exceeding the estimated revenues and the carryover balance available for appropriation.
- The School District has appropriated and is currently charging an additional \$10,000 per month and crediting the money to the Self-Insurance Reserve Fund to cover the estimated reserve balance requirement.

Revenue Activity

- In an effort to segregate duties, the Treasurer currently reconciles the general checking account. Mail is opened and sorted by a student receptionist and other administrative office personnel when the student receptionist is not working to ensure separation of duties.

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In process of implementation

- Detailed written procedures are to be created for collection of receipts in each building.
- Cafeteria cashiers, ticket takers, courier, and accounts payable or payroll assistants who handle cash are to be bonded.

Purchasing Process

- The School District has hired a business manager who is responsible for the purchasing functions. The Board of Education has adopted a policy requiring quotations from at least two vendors for purchases greater than \$5,000, not made through group purchasing.
- Then-and-Now Certificates are used by the School District, when appropriate.

In process of implementation

- The School District should establish written policies and procedures requiring quotes from a Board established number of vendors if purchases are greater than \$5,000.

Cash Disbursements and Payroll Process

- The School District does not have a safe. The Board Offices are now located in the new administration building which has a security system. In addition, unused checks are locked in a cabinet in the Treasurer's Office at all times, except when checks are being printed.
- The Board of Education has established a petty cash policy allowing the use of a separate checking account for the athletic fund in compliance with H.B. 220 and Section 3313.291 of the Ohio Revised Code, and as addressed in Auditor of State Bulletin 99-019.
- The School District will continue the use of three part checks. The third part is used to support, document, and track certain types of transactions by the Treasurer.
- A written note is currently required when someone other than the employee is to pick up the employee's pay check. When the individual picking up the check is not personally known, identification is required.

Debt Administration

- The School District is currently making its debt payments in accordance with the payment schedules. The 4502, the cash basis annual financial report, is not available to make sure all debt is included.

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Fixed Assets and Supplies Inventory

In process of implementation

- The fixed asset policies should be expanded to address the valuing of donated fixed assets, transferred assets, lost, stolen, or damaged assets, unused assets, and the control of other critical assets. The fixed asset policy should also address disposals, tagging and numbering procedures, assignment of salvage values, depreciation, and definition of private property.

Financial Reporting

- The School District prepares its annual financial statements in accordance with Generally Accepted Accounting Principles and files the financial statements with the Auditor of State's Office within 150 days of the fiscal year end.
- The Treasurer provides the Board a monthly report which includes fund cash balances, receipts and expenditures for each fund. It also includes a copy of the monthly SM-2 and the monthly bank reconciliation to the fund balances.

Management Letter

In process of implementation

- The School District should have a formalized disaster recovery plan to offset the impact of a loss of critical applications or computer facilities. The School District should develop a written, comprehensive, detailed disaster recovery plan.
- The School District should formally develop and adopt a written, comprehensive, detailed risk management program and ensure all buildings are covered in the safety program.
- The School District should prepare a report, within 90 days of the programs' fiscal year end, as required by Section 9.933 of the Ohio Revised Code for the self insurance programs providing health care benefits. The report should reflect the reserve balances and disbursements made from the reserved funds during the preceding year.

In a resolution adopted July 13, 2000, the Olmsted Falls City School District Board of Education directed the Treasurer to implement all of the "in process" items noted above.

The Fiscal Emergency Conditions

Under Section 3316.03(B) of the Ohio Revised Code, the Auditor of State is to declare a school district in a state of fiscal emergency if the Auditor of State determines the school district has met any of the conditions as follows:

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1. All of the following conditions are satisfied with respect to the school district:
 - a. The school district cannot demonstrate its ability to repay outstanding loans received under Section 3313.483 and 133.301 of the Ohio Revised Code in accordance with the applicable repayment schedules unless additional loans are obtained under these sections in an aggregate principal amount exceeding 50 percent of the prior year loans;
 - b. An operating deficit, reduced by the amount the school district may borrow against its spending reserve, has been certified by the Auditor of State under Section 3313.483 of the Ohio Revised Code that exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year;
 - c. A levy has not been passed by the voters that will raise enough additional revenue in the succeeding year that will result in the first two conditions not being met in the succeeding year; and,
 - d. The school district has an average daily membership (ADM) in excess of 10,000.
2. The school district board fails to submit a plan acceptable to the state superintendent of public instruction within one hundred and twenty days of the declaration for fiscal watch;
3. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041; and,
4. A school district has received more than one advancement from the School District Solvency Assistance Fund within a two year period, or has received one advance and has an operating deficit that exceeds fifteen percent of the school district's general fund revenue for the preceding year.

The results of our analysis of the fiscal emergency conditions is as follows:

1. The School District does not meet all the conditions identified in item 1 above; therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(1) of the Ohio Revised Code.
2. The School District under fiscal emergency is not required to submit a financial recovery plan to the State Superintendent of Public Instruction; however, the School District's recovery plan was approved by the Financial Planning and Supervision Commission on October 19, 1999. Therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(2) of the Ohio Revised Code.
3. The School District has not restructured or refinanced an emergency operating loan; therefore, a state of fiscal emergency does not exist under Section 3316.03(B)(3) of the Ohio Revised Code.
4. The School District has not received more than one advance under Section 3316.20 of the Ohio Revised Code, within a two year period; therefore, a state of fiscal emergency does not exist under Section 3316(B)(4) of the Ohio Revised Code.

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The Financial Recovery Plan

We obtained a copy of the financial recovery plan of the School District, dated October 19, 1999, and interviewed the Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission. The provisions of the financial plan and the School District's progress is as follows:

1. The School District passed a continuous, 12.9 mill operating levy in February 1999 which is anticipated to generate \$3,800,000 annually;
2. The School District received an advance in the amount of \$2,157,000 from the School District Solvency Assistance Fund in June 1999 which will mature June 2001;
3. The School District issued \$1,900,000 in five-year tax anticipation notes in June 1999, to be repaid in annual installments beginning December 1, 2000, with final maturity in fiscal year 2005;
4. The School District issued \$2,000,000 in tax anticipation notes in December 1999 which was repaid in June 2000; and,
5. The School District implemented various revenue enhancements and expenditure reductions as reflected in the School District's five-year forecast and consistent with the recommendations of the performance audit dated February 1, 2000.

The Five Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2000, through June 30, 2004, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School District's five year forecast (see Appendix A) presents a positive unreserved general fund balance for the forecast period and the Auditor of State, in a report dated June 8, 2000, rendered a "nonadverse" opinion on the financial forecast.

Conclusion

Based on our review, the Auditor of State has determined the following:

1. The School District has adopted and implemented, or is in the process of implementing, policies for a sound accounting and reporting system; however, the Auditor of State will monitor the progress to insure full implementation within a two year period;

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2. The School District has corrected or eliminated all the fiscal emergency conditions and it appears that, based on the five year financial forecast, the School District will remain out of fiscal emergency;
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is “nonadverse”.

Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the Olmsted Falls City School District and its functions may be terminated.

It is understood that this report’s determination is for the use of the Olmsted Falls City School District Board of Education, the Financial Planning and Supervision Commission, Bob Taft, Governor, Thomas W. Johnson, Director of the Office of Budget and Management, Frank Russo, Cuyahoga County Auditor, and Susan Tave Zelman, State Superintendent of Public Instruction, and others as designated by the Auditor of State, and is not to be used for any other purpose.

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DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

APPENDIX A

**Olmsted Falls City School District
Cuyahoga County**

**Financial Forecast
For the Fiscal Years Ending
June 30, 2000 Through June 30, 2004**

**Olmsted Falls City School District
Cuyahoga County**

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We have examined the accompanying forecasted Schedule of Revenues, Expenditures, and Changes in Fund Balance of the general fund of the Olmsted Falls City School District for the fiscal years ending June 30, 2000 through 2004. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by the Olmsted Falls Board of Education and the preparation and presentation of the forecast.

The accompanying forecast was prepared by management to provide the Ohio Department of Education and the Auditor of State with information to determine whether, under Section 3316.16 of the Ohio Revised Code, the Financial Planning and Supervision Commission will continue to exist and should not be used for any other purpose.

In our opinion, the accompanying forecast is presented in conformity with the guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants (AICPA), and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The historical financial statements for the years ended June 30, 1997, 1998, and 1999 (from which the historical data are derived) were audited by the Auditor of State's Office. The financial statements for the years ended June 30, 1997 and 1998, included an unqualified opinion and were dated February 17, 1998, and February 10, 1999, respectively. The report for the year ended June 30, 1999, dated December 15, 1999, contained a qualified opinion and raised doubt regarding the School District's ability to continue as a going concern.

JIM PETRO
Auditor of State

June 8, 2000

OLMSTED FALLS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE FISCAL YEARS ENDED JUNE 30, 1997 THROUGH 1999 ACTUAL;
 FISCAL YEARS ENDING JUNE 30, 2000 THROUGH 2004 FORECASTED
 GENERAL FUND

	Fiscal Year 1997 Actual	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Forecasted	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted
Revenues								
General Property Tax	\$8,955,000	\$9,577,000	\$9,149,000	\$12,061,000	\$13,950,000	\$14,142,000	\$14,473,000	\$14,809,000
Tangible Personal Property Tax	652,000	785,000	806,000	761,000	769,000	769,000	769,000	769,000
Unrestricted Grants-in-Aid	4,996,000	5,925,000	6,581,000	7,186,000	7,761,000	8,071,000	8,095,000	8,119,000
Restricted Grants-in-Aid	98,000	149,000	154,000	51,000	51,000	51,000	51,000	51,000
Property Tax Allocation	1,131,000	1,218,000	1,211,000	1,394,000	1,612,000	1,634,000	1,672,000	1,711,000
All Other Revenues	550,000	573,000	536,000	501,000	501,000	514,000	521,000	528,000
Total Revenues	16,382,000	18,227,000	18,437,000	21,954,000	24,644,000	25,181,000	25,581,000	25,987,000
Other Financing Sources								
Proceeds from Sale of Notes	275,000	275,000	5,663,000	2,000,000	423,000	0	0	0
State Emergency Loans and Advance	0	0	2,157,000	0	0	0	0	0
Advances In	5,000	0	0	0	0	0	0	0
Total Other Financing Sources	282,000	277,000	7,820,000	2,000,000	423,000	0	0	0
Total Revenues and Other Financing Sources	16,664,000	18,504,000	26,257,000	23,954,000	25,067,000	25,181,000	25,581,000	25,987,000
Expenditures								
Personal Services	11,276,000	12,035,000	12,757,000	12,760,000	13,823,000	14,803,000	15,538,000	16,097,000
Employees' Retirement/Insurance Benefits	2,567,000	3,462,000	3,305,000	3,731,000	4,296,000	4,358,000	4,587,000	4,782,000
Purchased Services	1,687,000	1,782,000	2,996,000	2,180,000	2,472,000	2,546,000	2,623,000	2,701,000
Supplies and Materials	625,000	834,000	702,000	840,000	979,000	1,017,000	1,047,000	1,079,000
Capital Outlay	209,000	298,000	214,000	226,000	768,000	320,000	331,000	341,000
Debt Service:								
Principal-Notes	175,000	450,000	4,038,000	2,000,000	340,000	360,000	380,000	400,000
Principal-State Loan	0	0	0	0	0	0	0	0
Principal-HB 264 Loans	0	0	17,000	17,000	42,000	43,000	44,000	29,000
Principal-Bonds	0	0	178,000	183,000	165,000	165,000	165,000	165,000
Interest and Fiscal Charges	68,000	56,000	225,000	203,000	175,000	143,000	115,000	84,000
Other Objects	255,000	280,000	326,000	364,000	457,000	475,000	495,000	505,000
Total Expenditures	16,862,000	19,197,000	24,758,000	23,583,000	24,596,000	24,230,000	25,325,000	26,183,000
Other Financing Uses								
Operating Transfers Out	0	32,000	0	0	0	0	0	0
Total Expenditures and Other Financing Uses	16,862,000	19,229,000	24,758,000	23,583,000	24,596,000	24,230,000	25,325,000	26,183,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(198,000)	(725,000)	1,499,000	371,000	471,000	951,000	256,000	(196,000)
Cash Balance July 1	198,000	0	(725,000)	774,000	1,145,000	1,616,000	2,567,000	2,823,000
Cash Balance June 30	0	(725,000)	774,000	1,145,000	1,616,000	2,567,000	2,823,000	2,627,000
Estimated Encumbrances June 30	3,000	499,000	352,000	400,000	400,000	400,000	400,000	400,000
Reservations of Fund Balance								
Capital Improvements	0	0	0	178,000	0	0	0	0
Budget Reserve	0	107,000	107,000	107,000	107,000	189,000	189,000	189,000
Bus Purchases	0	243,000	40,000	5,000	0	0	0	0
Total Reservations	0	350,000	147,000	290,000	107,000	189,000	189,000	189,000
Unreserved Fund Balance (Deficit) June 30	(\$3,000)	(\$1,574,000)	\$275,000	\$455,000	\$1,109,000	\$1,978,000	\$2,234,000	\$2,038,000

See accompanying summary of significant forecast assumptions and accounting policies.

Note: Schedule includes general fund, textbook fund and any portion of the debt service fund related to general fund debt.

**OLMSTED FALLS CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
for the Fiscal Years Ending June 30, 2000 through 2004**

Nature of Presentation

This financial forecast presents, to the best of the Olmsted Falls City School District Board of Education's knowledge and belief, the expected revenues, expenditures, and changes in fund balance of the general fund for the forecast period. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of June 8, 2000, the date of this forecast. The accompanying forecast was prepared by management to provide the Ohio Department of Education and the Auditor of State with information to determine whether, under Section 3316.16 of the Ohio Revised Code, the Financial Planning and Supervision Commission will continue to exist and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

1. General Assumptions

The Olmsted Falls City School District (the School District) will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations.

The forecast includes the revenue and expenditure activity of the general fund, the textbook subsidy fund, and any portion of the debt service fund related to general fund debt.

The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

2. Revenue and Other Financing Source Assumptions

The fiscal year 2000 revenue and other financing source assumptions are based on the following:

Property Taxes

Property taxes consist of real estate, public utility real and personal property, tangible personal property, and trailer taxes. Advances may be requested from the Cuyahoga County Auditor as the tax is collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer's fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast schedules represent gross property tax revenues.

General Property Tax (Real Estate)

The general property tax revenue estimates are based on a confirmation received from the Cuyahoga County Auditor. Included in this revenue source are real estate and trailer tax revenues. The amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account.

**OLMSTED FALLS CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
for the Fiscal Years Ending June 30, 2000 through 2004**

Based upon these estimates, the School District anticipates receiving \$12,061,000 in real estate tax revenue during fiscal year 2000, an increase of \$2,912,000 over the prior fiscal year. The increase is due primarily to the passage of a 12.9 mill operating levy in February 1999 and increased property valuations. The School District will receive one half year's collection from the new levy in the current fiscal year. The new levy is anticipated to generate \$3,800,000 annually.

Fiscal years 2001 through 2004 were based upon information provided by the Cuyahoga County Auditor which includes a full year of collections of the new operating levy for fiscal years 2001 through 2004, with slight increases included annually for new construction and increased valuations.

Tangible Personal Property Tax

This revenue source consists of tangible personal property tax revenue and public utility personal property tax revenue. The first \$10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenue lost due to this exemption. The amount of the reimbursement, as estimated by the Cuyahoga County Auditor, is included in the forecasted amount of property tax allocation. During the historical period, the reimbursement is reflected in tangible personal property tax revenues.

The School District has assumed in the forecast that it will be held harmless with respect to the changes implemented in the taxing structure of public utilities (namely electric companies). Accordingly, no adjustments have been made to reflect any potential reduction of property tax revenues during the forecast period. Additionally, the Ohio legislature passed and the Governor approved legislation during 1999 calling for the reduction in the assessed valuation percentage of the personal property tax on inventory of one percent a year over the next 25 year period. The School District has incorporated a reduction in the personal property tax collections beginning in fiscal year 2002 through fiscal year 2004 to reflect the change in the assessed valuation.

As with general property taxes, tangible personal property tax and public utility personal property tax revenues are based on a confirmation received from the Cuyahoga County Auditor. Based on these estimates, the School District anticipates receiving \$761,000 in tangible personal property tax during fiscal year 2000, a \$45,000 decrease from fiscal year 1999. The decrease is due to lower estimated inventories in tangible personal property as confirmed by the County Auditor.

Tangible personal property taxes for fiscal years 2001 through 2004 are estimated based on amounts provided by the Cuyahoga County Auditor for calendar year 2000. For fiscal year 2001, an increase of one percent was included and a constant amount for fiscal years 2002 through 2004 is estimated due to the legislative changes in personal property taxes.

Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semi-monthly basis. Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section. Forecasted amounts are based on current information provided by the State Department of Education. For fiscal year 2000, a nine percent increase is anticipated, largely due to a new method used to calculate school foundation.

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**Summary of Significant Forecast Assumptions and Accounting Policies
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Unrestricted grants-in-aid includes formula aid, special education aid, training and experience of classroom teachers funding, unrestricted disadvantaged pupil impact aid (a portion is also restricted as explained below), extended service, gifted aid, transportation, vocational education, and equalization enhancement revenues received from the State Department of Education, Division of School Finance. The amount of actual revenue reported on a recent school foundation statement of settlement is \$7,186,000 for fiscal year 2000.

The forecast for fiscal year 2001 includes increases based on the historical patterns of the School District. Annual increases for fiscal years 2002 through 2004 were reduced due to the uncertainty of State funding levels.

Restricted Grants-in-Aid

Restricted grants-in-aid consist of a bus purchase allowance in the amount of \$51,000 received in November 1999. The School District anticipates the continuation of the bus purchase allowance for fiscal years 2001 through 2004 at \$51,000 annually.

Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the above (rollback and homestead).

The first \$10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenue lost due to this exemption. The amount of the reimbursement, as estimated by the Cuyahoga County Auditor, is also included in the forecasted amount of property tax allocation. In the past, this revenue was reflected in personal property tax revenues.

The Cuyahoga County Auditor certified the rollback and homestead revenue at \$1,394,000 for fiscal year 2000, an increase of \$183,000 from fiscal year 1999. The increase is due to the passage of 12.9 mill operating levy in February 1999.

For fiscal years 2001 through 2004, the property tax allocation is forecasted to increase in direct proportion to the real property tax revenues.

All Other Revenues

All other revenues include revenues not classified elsewhere. For fiscal year 2000, investment earnings are based on historical investment practices and current interest rates. Tuition revenues represents monies the School District anticipates receiving from other school districts for current and past due accounts. Miscellaneous revenues are primarily from rentals and monies received from the Lakewood City School District and Fairview Park City School District for mechanical work on buses.

The School District anticipates the same amount of revenue in fiscal year 2001 and slight increases in fiscal years 2002 through 2004 based on increased billings resulting from higher labor costs.

**OLMSTED FALLS CITY SCHOOL DISTRICT
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**Summary of Significant Forecast Assumptions and Accounting Policies
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Other Financing Sources

Proceeds from the Sale of Notes

During the prior fiscal year, the School District issued the following notes:

- In July 1998 and January 1999, the School District received \$3,763,000 from the cash flow borrowing program. The cash flow borrowing was repaid in June 1999, from general fund revenues.
- In June 1999, the School District issued \$1,900,000 in five-year tax anticipation notes. The notes have a final maturity in fiscal year 2005, and will be paid from property tax revenues.
- In June 1999 the School District received \$2,157,000 from the School District Solvency Assistance program. The advance will be repaid in fiscal years 2000 and 2001 from general fund revenues.

During fiscal year 2000, the School District issued \$2,000,000 in tax anticipation notes. The notes will be repaid on June 15, 2000 with property tax revenues.

The School District anticipates issuing \$423,000 in HB 264 notes for an energy conservation project in fiscal year 2001. The School District does not anticipate the issuance of any other notes during fiscal years 2002 through 2004.

3. Expenditure and Other Financing Use Assumptions

The fiscal year 2000 through 2004 anticipated expenditures and other financing uses are based on the following:

Personal Services

The personal service expenditures of \$12,760,000 forecasted for fiscal year 2000 includes an increase of \$3,000 from fiscal year 1999 levels. The increase is due to an increase in base salary and step increases, substitute pay, and supplemental contracts, offset by the replacement of teaching staff with younger, less expensive teachers, a decrease in tutor salaries, and severance pay.

The cost of personal services for fiscal years 2001 through 2004, includes salaries and wages for certified and classified staff, supplemental contracts, substitutes, severance pay, board members, overtime, and student workers. The amounts are based on 24 pays for each fiscal year and the terms of the existing ratified union contracts as amended. Current staff positions, including those expected to be filled, are included in the forecast period. Each fiscal year's forecasted expenditures for personal services allow for additional staff, step increases, educational moves and increases allowed under current and future negotiated union contracts.

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Employees' Retirement/Insurance Benefits

Employee retirement and insurance benefits are forecasted at \$3,731,000 for fiscal year 2000, an increase of \$426,000 from fiscal year 1999. The increase is caused by increases in insurances due to the School District funding the self insurance fund this fiscal year, workers' compensation, early retirement incentive payments, medicare, and prescription insurance, partially offset by a decrease in retirement costs.

For fiscal years 2001 through 2004, the most significant benefits provided for the School District employees include retirement, health care, medicare and workers' compensation coverage.

Retirement costs are based on the current contribution rate of 14 percent for all programs. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next fiscal year. Retirement costs are expected to increase in relation to the increase in salaries and wages.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program, and annual increases in health care premiums. Medicare benefits are forecasted based on related anticipated payroll costs for new staff over the forecast period. Workers' compensation premium costs are based on the School District's current rate and the anticipated salaries for fiscal years 2000 through 2004. The School District believes that all scheduled payments will be made in the current fiscal year.

Purchased Services

Purchased service expenditures include professional services, property services, utilities, tuition and transportation costs. The School District is anticipating a \$816,000 decrease in purchased services for fiscal year 2000. The decrease is primarily due to a decrease in legal and consulting services in fiscal year 2000, a decrease in travel and meeting expenses as a result of the School District attempting to reduce expenditures, and a decrease in tuition costs resulting from the School District paying outstanding excess costs due to other school districts in fiscal year 1999.

During fiscal years 2001 through 2004, annual expenditures increases are included for inflation.

Supplies and Materials

Expenditures for supplies and materials include general and office supplies, teaching aids, software materials, textbooks, and supplemental textbooks. Fiscal year 2000 forecasted expenditures are anticipated to increase \$138,000 from fiscal year 1999 as the result of the School District's need to replenish textbooks.

Fiscal years 2001 through 2004 include increases for textbook purchases, instructional materials, and other expenditures for non-instructional items based on an annual three percent inflationary increase.

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Capital Outlay

Capital outlay expenditures are forecasted for fiscal year 2000 in the amount of \$226,000, which represents \$216,000 for new capital outlay and \$10,000 of replacement capital outlay. The majority of the planned expenditures are for purchases of new classroom equipment and an additional school bus.

The School District anticipates the purchase of one school bus each year during fiscal years 2001 through 2004. Fiscal year 2001 expenditures are forecasted to increase approximately four percent with an additional \$457,000 for a HB 264 energy conservation project. Fiscal years 2002 through 2004 are forecasted to increase approximately four percent annually, based on fiscal year 2001 expenditures, less the amount of the HB 264 energy conservation project.

Debt Service

The following principal and interest payments will be made during the forecast period for tax anticipation notes, energy conservation (HB 264) loans, the School District Solvency Assistance advance, and various bond payments:

	Tax Anticipation Notes	HB 264 Loans	School District Solvency Advance	Payments on Various Bonds	Total Principal	Interest
FY 2000	\$2,000,000	\$17,000	\$1,079,000	\$183,000	\$3,279,000	\$203,000
FY 2001	340,000	42,000	1,079,000	165,000	1,626,000	175,000
FY 2002	360,000	43,000	0	165,000	568,000	143,000
FY 2003	380,000	44,000	0	165,000	589,000	115,000
FY 2004	400,000	29,000	0	165,000	594,000	84,000

The tax anticipation notes, energy conservation (HB 264) loans, and various bonds are paid from general fund revenues. The School District Solvency Assistance advance is paid from State foundation revenues.

Other Objects

This account includes dues, fees, liability insurance, county board deductions, and award costs. The School District is projecting a \$38,000 increase for fiscal year 2000 in this expenditure category.

Fiscal years 2001 through 2004 include annual inflationary increases and increases in county auditor and treasurer fees due to increased property tax collections.

4. Encumbrances

Encumbrances for purchased services, supplies and materials, capital outlay and other expenditures for the fiscal year ended June 30, 1999 were \$352,000 and are forecasted at \$400,000 for June 30, 2000 through 2004.

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5. Reservation of Fund Balance

Textbooks and Instructional Materials

The required three percent contribution for fiscal year 2000 for the textbooks and instructional materials set aside amounted to \$432,000. The set aside was completely offset by qualifying planned expenditures for textbooks, instructional materials, instructional supplies, instructional software, and instructional equipment.

During the forecast years of 2001 through 2004, the School District anticipates qualifying expenditures to equal the set-aside requirement; therefore, no reserve for textbooks and instructional materials is forecasted.

Capital Improvements

The required three percent contribution for fiscal year 2000 for the capital improvements and maintenance set aside amounted to \$432,000. The set aside is partially offset by the proceeds from a classroom facilities levy adopted under Section 3318.06 of the Ohio Revised Code. The levy generates \$148,000, annually; \$74,000 is sent directly to the State to retire classroom facilities debt and the remaining \$74,000 is available for maintenance and repair of permanent improvements. The set aside was further reduced by \$180,000 of qualifying planned expenditures for capital and permanent improvements. Therefore, a reserve of \$178,000 is included in the forecast.

During fiscal years 2001 through 2004, the School District anticipates general fund qualifying expenditures and the amount from the annual permanent improvement levy to completely offset the set aside requirements. Therefore, the School District will have no capital improvement and maintenance set aside reserve requirement for fiscal years 2001 through 2004.

Budget Reserve

A set aside of current year revenue for a budget reserve is required for each year a school district has an increase of three percent or more in base revenues; however, a school district in a fiscal emergency is exempt from the requirement. The exemption also applies in the fiscal year a school district is released from fiscal emergency. Each year a school district has a growth of three percent or more in the base revenues, the required balance in the budget reserve increases by one percent until the five percent limit is reached.

The School District anticipates release from fiscal emergency in fiscal year 2001. Fiscal year 2002 is the only year in the forecast period, and the first year, the School District anticipates meeting the criteria for a set aside of current year revenue to the budget reserve. The anticipated budget reserve for fiscal 2002 is \$189,000.

Under Section 39 of House Bill 770, school districts are required to credit any refund from the Bureau of Worker's Compensation to the budget reserve. In 1998, the School District created the budget reserve with a refund in the amount of \$107,000.

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Bus Purchases

At June 30, 1999 the School District had \$40,000 in unspent bus monies. In addition, the School District received \$51,000 in bus purchase allowance during fiscal year 2000. The reserve is reduced by qualifying planned expenditures of \$86,000. Therefore, a set aside of \$5,000 has been created for bus purchases for fiscal year 2000.

During fiscal years 2001 through 2004, it is conservatively projected that the School District will receive \$51,000, annually. The School District anticipates purchasing one replacement bus per year during fiscal years 2001 through 2004, using the bus purchase subsidy money received. Therefore, no reserve of fund balance is anticipated.

6. Pending Litigation

The School District has no pending litigation that will have a financial impact on the School District, according to the School District's legal counsel.

7. Levies

The School District has no levies that will expire during fiscal years 2000 through 2004 and does not plan to place any levies on the ballot during the forecast period.

8. Accounting Policies

Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts and disbursements which is consistent with the required budget basis (non-GAAP) of accounting which is the same as that used to prepare the historical budgetary statements for the years ended June 30, 1997, 1998, and 1999. Under this system, certain revenue and related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting and to make appropriations for budgetary funds. The appropriations are made by the Board of Education to their classification of accounts and are restricted for such purpose until expended or amended by the Board.

Investments

Investment procedures are restricted by the provisions of the Ohio Revised Code. The School District pools cash from all funds for investment purposes. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each

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**Summary of Significant Forecast Assumptions and Accounting Policies
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fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund

The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds

To account for the proceeds of specific revenue sources (other than expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

Capital Project Funds

To account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Debt Service Funds

To account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest. According to governmental accounting principles, the Debt Service Fund accounts for the payment of debt for governmental funds only. Under Ohio law, the debt service fund may be used to account for the payment of debt for both governmental and proprietary funds.

Proprietary Funds

Enterprise Funds

To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governmental units, on a cost-reimbursement basis.

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Fiduciary Funds

Trust and Agency Funds

To account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Non-expendable Trust Funds, (c) Pension Funds, and (d) Agency Funds.

Budgetary Process

Budget

A budget of estimated cash receipts and disbursements is submitted to the Cuyahoga County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances

The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these fixed assets as the purpose of the financial statements for the general governmental services is to report the expenditure of resources, not costs.



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OLMSTED FALLS CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 25, 2000**