



**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

TABLE OF CONTENTS

Title	Page
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	19
Statement of Fund Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Fiduciary Fund	23
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Expenditures	61
Notes to Schedule of Federal Awards Expenditures	62
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> Expenditures	63
Independent Accountants' Report on Compliance with Requirements Applicable to its Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	65
Schedule of Findings	67
Schedule of Prior Year Findings	69

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Solon City School District
Cuyahoga County
33800 Inwood Road
Solon, Ohio 44139

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Solon City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Solon City School District, Cuyahoga County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

February 14, 2005

**SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited**

The discussion and analysis of the Solon School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$7,556,573. Net assets of governmental activities increased \$7,526,800, which represents a 27.10 percent increase from 2003. Net assets of business-type activities increased \$29,775 or 26.66 percent from 2003.
- General revenues accounted for \$61,488,423 in revenue or 92.31 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,120,564 or 7.69 percent of total revenues of \$66,608,987.
- Total assets of governmental activities increased by \$297,423 as cash and investments increased by \$320,409, while tax and other receivables decreased by \$491,364.
- The School District had \$57,605,750 in expenses related to governmental activities; only \$3,737,127 of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes) of \$60,911,977 were adequate to provide for these programs.
- Among major funds, the general fund had \$55,816,851 in revenues and \$53,499,133 in expenditures. The general fund's fund balance increased \$2,295,076, from \$793,878 to \$3,088,954, due to the timing of property tax collection by the County Auditor.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Solon City School District as a financial whole, or as an entire operating entity.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. 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 School District's most significant funds, with all other nonmajor funds presented in total in one column. In the case of the Solon City School District, the general fund is by far the most significant fund.

**SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited**

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and Statement of Activities answer this question. These statements include *all assets* and *all liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

- Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.
- Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's adult and community education programs, food service, and uniform school supplies are reported as business activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and debt service fund.

SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited

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

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$ 70,881,096	\$ 71,048,436	\$ 67,583	\$ 54,961	\$ 70,948,679	\$ 71,103,397
Capital Assets	45,582,906	45,118,093	170,079	189,812	45,752,985	45,307,905
Total Assets	\$116,464,002	\$116,166,529	\$ 237,662	\$ 244,773	\$116,701,664	\$116,411,302
Liabilities						
Long-Term Liabilities	\$ 30,282,561	\$ 34,190,848	\$ 65,678	\$ 51,401	\$ 30,348,239	\$ 34,242,249
Other Liabilities	50,880,535	54,201,575	30,514	81,677	50,911,049	54,283,252
Total Liabilities	81,163,096	88,392,423	96,192	133,078	81,259,288	88,525,501
Net Assets						
Invested in Capital Assets Net of Debt	20,132,944	23,543,131	359,891	189,812	20,492,835	23,732,943
Restricted	8,258,781	6,060,456	0	0	8,258,781	6,060,456
Unrestricted (Deficit)	6,909,181	(1,829,481)	(218,421)	(78,117)	6,690,760	(1,907,598)
Total Net Assets	\$ 35,300,906	\$ 27,774,106	\$ 141,470	\$ 111,695	\$ 35,442,376	\$ 27,885,801

Total assets increased \$290,362. Equity in pooled cash and cash equivalents and investments increased \$311,741. Taxes receivable increased \$85,077. Total liabilities decreased by \$7,266,213, due, in part, to a decrease in deferred revenue of \$3,223,753.

Total net assets of the School District's governmental activities increased by \$7,526,800. Unrestricted net assets for governmental activities increased by \$8,738,662 due to full collection from the new tax levy.

SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows the changes in net assets for fiscal year 2004 compared to fiscal year 2003.

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues:						
Charges for Services	\$ 1,883,788	\$ 2,033,373	\$ 1,282,464	\$ 1,177,026	\$ 3,166,252	\$ 3,210,399
Operating Grants and Contributions	1,830,636	1,539,188	100,973	134,272	1,931,609	1,673,460
Capital Grants and Contributions	22,703	162,270	0	0	22,703	162,270
General Revenues:						
Property Taxes	49,830,382	45,274,650	0	0	49,830,382	45,274,650
Income and Other Taxes	1,084,925	749,678	0	0	1,084,925	749,678
Payment in Lieu of Taxes	2,357,993	0	0	0	2,357,993	0
Grants and Entitlements	7,596,050	7,375,457	0	0	7,596,050	7,375,457
Investment Earnings	128,541	229,628	0	0	128,541	229,628
Other	7,086	49,128	0	0	7,086	49,128
Extraordinary Items						
Insurance Proceeds	483,446	1,400,000	0	0	483,446	1,400,000
Total Revenues	<u>65,225,550</u>	<u>58,813,372</u>	<u>1,383,437</u>	<u>1,311,298</u>	<u>66,608,987</u>	<u>60,124,670</u>
Program Expenses						
Instruction:						
Regular	27,445,590	27,588,736	0	0	27,445,590	27,588,736
Special	5,671,600	4,940,861	0	0	5,671,600	4,940,861
Vocational	546,098	510,428	0	0	546,098	510,428
Other	227,959	185,404	0	0	227,959	185,404
Support Services:						
Pupil	3,535,867	3,292,650	0	0	3,535,867	3,292,650
Instructional Staff	2,080,578	1,859,095	0	0	2,080,578	1,859,095
Board of Education	26,628	48,184	0	0	26,628	48,184
Administration	2,787,624	2,926,932	0	0	2,787,624	2,926,932
Fiscal	1,135,079	1,261,328	0	0	1,135,079	1,261,328
Business	958,126	827,949	0	0	958,126	827,949
Operation and Maintenance						
of Plant	5,966,550	7,894,384	0	0	5,966,550	7,894,384
Pupil Transportation	2,747,204	2,625,369	0	0	2,747,204	2,625,369
Central	748,037	732,618	0	0	748,037	732,618
Operation of Non-Instructional						
Services	391,386	414,178	0	0	391,386	414,178
Extracurricular Activities	2,135,956	2,190,681	0	0	2,135,956	2,190,681
Interest and Fiscal Charges	1,201,468	1,066,907	0	0	1,201,468	1,066,907
Food Service	0	0	1,234,054	1,274,037	1,234,054	1,274,037
Uniform School Supplies	0	0	102,458	93,421	102,458	93,421
Adult Education	0	0	110,150	114,388	110,150	114,388
Total Program Expenses	<u>57,605,750</u>	<u>58,365,704</u>	<u>1,446,662</u>	<u>1,481,846</u>	<u>59,052,412</u>	<u>59,847,550</u>
Increase (Decrease) in Net						
Assets before Transfers	7,619,800	447,668	(63,225)	(170,548)	7,556,575	277,120
Transfers	(93,000)	(102,600)	93,000	102,600	0	0
Increase (Decrease) in Net Assets	7,526,800	345,068	29,775	(67,948)	7,556,575	277,120
Net Assets Beginning of Year						
	<u>27,774,106</u>	<u>27,429,038</u>	<u>111,695</u>	<u>179,643</u>	<u>27,885,801</u>	<u>27,608,681</u>
Net Assets End of Year	<u>\$35,300,906</u>	<u>\$27,774,106</u>	<u>\$ 141,470</u>	<u>\$ 111,695</u>	<u>\$ 35,442,376</u>	<u>\$ 27,885,801</u>

**SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited**

Governmental Activities

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 76.40 percent of revenues for governmental activities for the School District in fiscal year 2004.

Instruction comprises 58.83 percent of governmental program expenses. Interest expense was 2.09 percent. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004 and fiscal year 2003. That is, it identifies the cost of these services by tax revenue and unrestricted State entitlements.

Table 3 - Governmental Activities

	Total Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2004	Net Cost of Services 2003
Instruction	\$ 33,891,247	\$ 33,225,429	\$ 32,556,237	\$ 31,922,400
Support Services:				
Pupil and Instructional Staff	5,616,445	5,151,745	4,694,532	4,454,411
Board of Education, Administration, Fiscal, and Business	4,907,457	5,064,393	4,789,240	4,939,524
Operation and Maintenance of Plant	5,966,550	7,894,384	6,120,875	7,720,220
Pupil Transportation	2,747,204	2,625,369	2,721,815	2,580,075
Central	748,037	732,618	607,699	631,527
Operation of Non-Instructional Service	391,386	414,178	82,302	54,276
Extracurricular Activities	2,135,956	2,190,681	1,094,455	1,261,533
Interest and Fiscal Charges	1,201,468	1,066,907	1,201,468	1,066,907
Total Expenses	<u>\$ 57,605,750</u>	<u>\$ 58,365,704</u>	<u>\$ 53,868,623</u>	<u>\$ 54,630,873</u>

The dependence upon tax revenues for governmental activities is apparent. Over 96.06 percent of instruction activities are supported through taxes and other general revenues, for all governmental activities, general revenue support is 93.6 percent. The community, as a whole, is by far the primary support for the School District's students.

SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited

Business-Type Activities

Business-type activities include adult/community education, which includes preschool and after school programs, the food service operation, and the sale of uniform school supplies. These programs had revenues of \$1,383,437 and expenses of \$1,446,662 for fiscal year 2004. To also ensure that net assets are not further reduced in fiscal 2004, the School District is taking steps to reduce expenses, including renegotiating vendor agreements. Business activities receive no support from tax revenues.

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$64,669,359 and expenditures of \$68,324,028. The net change in fund balance for the year was most significant in the general fund, an increase of \$2,295,076, due to an increase in tax collections for fiscal year 2004.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District amended its general fund budgeted revenue numerous times, none significant. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue and other financing sources was \$52,502,657. The original budget estimate was \$54,223,000. Of this \$1,720,343 difference, most was due to over estimates for intergovernmental and tuition.

There was an \$800,000 increase in the final expenditure budget compared to the original budget estimate. This increase was mostly due to expenditure increases for instructional services.

The School District's ending unobligated cash balance was \$1,604,606 above the final budgeted amount.

**SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$45,752,985 invested in land, buildings, equipment, buses and other vehicles, \$45,582,906 in governmental activities. Table 4 shows fiscal year 2004 balances compared to 2003:

Table 4 - Capital Assets at June 30 (net of depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 2,756,494	\$ 2,583,983	\$ 0	\$ 0	\$ 2,756,494	\$ 2,583,983
Land Improvements	951,066	1,073,238	0	0	951,066	1,073,238
Buildings and Improvements	34,301,873	35,122,850	0	0	34,301,873	35,122,850
Furniture and Equipment	3,800,302	4,478,834	170,079	189,812	3,970,381	4,668,646
Buses and Vehicles	1,156,768	1,161,183	0	0	1,156,768	1,161,183
Construction in Progress	<u>2,616,403</u>	<u>698,005</u>	<u>0</u>	<u>0</u>	<u>2,616,403</u>	<u>698,005</u>
Total Capital Assets	<u>\$ 45,582,906</u>	<u>\$ 45,118,093</u>	<u>\$ 170,079</u>	<u>\$ 189,812</u>	<u>\$ 45,752,985</u>	<u>\$ 45,307,905</u>

The primary increase occurred in land improvements. The lack of an increase in buses and other vehicles and the decrease in building improvements and equipments are the result of depreciation expense over current year acquisitions.

In fiscal year 2004, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and textbooks. For fiscal year 2004, this amounted to \$732,374 for each set aside. For fiscal year 2004, the School District had qualifying disbursements or offsets exceeding these requirements.

As of June 30, 2004, the School District has contractual commitments for the football field turf replacement, roof renovation, and masonry/window replacement. The balance outstanding on these contracts is \$932,729, \$175,970, and \$92,720, respectively.

Debt

At June 30, 2004, the School District had \$25,449,962 in bonds and notes outstanding, \$1,300,785 due within one year. Table 5 summarizes bonds and notes outstanding.

SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited

Table 5 - Outstanding Debt at Year End

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
General Obligation Bonds		
1989 School Improvement Bonds	\$ 1,280,000	\$ 1,445,000
1993 Refunding School Improvement Bonds	6,809,962	8,329,962
1997 School Improvement Bonds	4,965,000	5,160,000
2001 School Improvement Bonds	6,395,000	6,640,000
2003 School Improvement Bonds	6,000,000	0
Notes Payable		
2003 Bond Anticipation Note	<u>0</u>	<u>6,000,000</u>
Total	<u>\$25,449,962</u>	<u>\$27,574,962</u>

The general obligation bonds were issued for the purpose of school improvements. They are to be repaid from the debt service fund.

At June 30, 2004, the School District's overall legal debt margin was \$86,232,602 with an unvoted debt margin of \$1,214,050. The School District maintains an AA+ bond rating from Fitch Ratings and Aa2 from Moody's Investors Service.

For the Future

The Solon City School District closed out its fiscal year on June 30, 2004, on a positive note staying within the total appropriations approved by the Board of Education and spending less than anticipated for the year. According to current financial projections, as evidenced by the School District's 5-year plan, the School District will not need additional operating revenues until the 2005-06 school year, consistent with the promise the Board made to the community during the last levy campaign.

In May 2003, the community approved a \$6 million bond issue to provide funding for a series of capital improvements scheduled over the next 5 years. The School District's commitment to the community was the new debt would be incurred without an increase in taxes. Several of the capital projects were implemented during the summer of 2004. The School District recently received a bond rating of AA+ from Fitch Ratings and a rating of Aa2 from Moody's Investor's Service for the new and all outstanding debt. These ratings are among the highest of all school districts in Ohio.

The Board of Education and administration of the school district are committed to careful financial planning and prudent fiscal management. An excellent working and supportive relationship exists between the School District, the City of Solon, the Village of Glenwillow, the industrial community and the residents of the City.

**SOLON CITY SCHOOL DISTRICT
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2004
Unaudited**

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Dennis Anderson, Treasurer at Solon City School District, 33800 Inwood Road, Solon, Ohio 44139, or e-mail at danderso@solonboe.org.

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**SOLON CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 15,591,842	\$ 1,567	\$ 15,593,409
Accounts Receivable	17,986	0	17,986
Intergovernmental Receivable	99,050	21,441	120,491
Internal Balances	3,000	(3,000)	0
Prepaid Items	20,427	0	20,427
Inventory Held for Resale	0	44,717	44,717
Materials and Supplies Inventory	61,958	2,858	64,816
Taxes Receivable	52,184,125	0	52,184,125
Investments	2,902,708	0	2,902,708
Nondepreciable Capital Assets	5,372,897	0	5,372,897
Depreciable Capital Assets, Net	<u>40,210,009</u>	<u>170,079</u>	<u>40,380,088</u>
Total Assets	<u>116,464,002</u>	<u>237,662</u>	<u>116,701,664</u>
<u>Liabilities</u>			
Accounts Payable	219,868	0	219,868
Contracts Payable	238,344	0	238,344
Accrued Wages	4,766,295	18,017	4,784,312
Intergovernmental Payable	774,515	0	774,515
Deferred Revenue	42,345,143	12,497	42,357,640
Accrued Interest Payable	98,151	0	98,151
Retirement Payout Liability	1,130,219	0	1,130,219
Claims Payable	1,308,000	0	1,308,000
Long-Term Liabilities:			
Due Within One Year	2,059,789	261	2,060,050
Due In More Than One Year	<u>28,222,772</u>	<u>65,417</u>	<u>28,288,189</u>
Total Liabilities	<u>81,163,096</u>	<u>96,192</u>	<u>81,259,288</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	20,132,944	359,891	20,492,835
Restricted for:			
Capital Projects	5,128,953	0	5,128,953
Debt Service	2,518,664	0	2,518,664
Set Asides	233,776	0	233,776
Other Purposes	377,388	0	377,388
Unrestricted (Deficit)	<u>6,909,181</u>	<u>(218,421)</u>	<u>6,690,760</u>
Total Net Assets	<u>\$ 35,300,906</u>	<u>\$ 141,470</u>	<u>\$ 35,442,376</u>

See accompanying notes to the basic financial statements.

**SOLOM CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction:							
Regular	\$ 27,445,590	\$ 830,709	\$ 431,502	\$ 0	\$ (26,183,379)	\$ 0	\$ (26,183,379)
Special	5,671,600	0	72,799	0	(5,598,801)	0	(5,598,801)
Vocational	546,098	0	0	0	(546,098)	0	(546,098)
Other	227,959	0	0	0	(227,959)	0	(227,959)
Support Services:							
Pupil	3,535,867	0	825,499	0	(2,710,368)	0	(2,710,368)
Instructional Staff	2,080,578	0	96,414	0	(1,984,164)	0	(1,984,164)
Board of Education	26,628	0	0	0	(26,628)	0	(26,628)
Administration	2,787,624	118,217	0	0	(2,669,407)	0	(2,669,407)
Fiscal	1,135,079	0	0	0	(1,135,079)	0	(1,135,079)
Business	958,126	0	0	0	(958,126)	0	(958,126)
Operation and Maintenance							
of Plant	5,966,550	(109,325)	(45,000)	0	(6,120,875)	0	(6,120,875)
Pupil Transportation	2,747,204	2,686	0	22,703	(2,721,815)	0	(2,721,815)
Central	748,037	0	140,338	0	(607,699)	0	(607,699)
Operation of Non-Instructional							
Services	391,386	0	309,084	0	(82,302)	0	(82,302)
Extracurricular Activities	2,135,956	1,041,501	0	0	(1,094,455)	0	(1,094,455)
Interest and Fiscal Charges	1,201,468	0	0	0	(1,201,468)	0	(1,201,468)
Total Governmental Activities	<u>57,605,750</u>	<u>1,883,788</u>	<u>1,830,636</u>	<u>22,703</u>	<u>(53,868,623)</u>	<u>0</u>	<u>(53,868,623)</u>
Business-Type Activities							
Food Service	1,234,054	1,072,808	100,973	0	0	(60,273)	(60,273)
Uniform School Supplies	102,458	107,524	0	0	0	5,066	5,066
Adult and Community Education	110,150	102,132	0	0	0	(8,018)	(8,018)
Total Business-Type Activities	<u>1,446,662</u>	<u>1,282,464</u>	<u>100,973</u>	<u>0</u>	<u>0</u>	<u>(63,225)</u>	<u>(63,225)</u>
Totals	<u>\$ 59,052,412</u>	<u>\$ 3,166,252</u>	<u>\$ 1,931,609</u>	<u>\$ 22,703</u>	<u>(53,868,623)</u>	<u>(63,225)</u>	<u>(53,931,848)</u>
General Revenues and Transfers							
Property Taxes Levied for:							
General Purposes					45,222,444	0	45,222,444
Debt Service					3,371,641	0	3,371,641
Capital Outlay					1,236,297	0	1,236,297
Income Tax Levied for:							
Capital Outlay					1,077,748	0	1,077,748
Other Taxes					7,177	0	7,177
Payment in Lieu of Taxes					2,357,993	0	2,357,993
Grants and Entitlements not Restricted to Specific Programs					7,596,050	0	7,596,050
Investment Earnings					128,541	0	128,541
Gain on Sale of Capital Assets					4,793	0	4,793
Miscellaneous					2,293	0	2,293
Transfers					(93,000)	93,000	0
Total General Revenues and Transfers					<u>60,911,977</u>	<u>93,000</u>	<u>61,004,977</u>
Extraordinary Items							
Insurance Proceeds					483,446	0	483,446
Total Extraordinary Items					<u>483,446</u>	<u>0</u>	<u>483,446</u>
Total General Revenues, Transfers, and Extraordinary Items					<u>61,395,423</u>	<u>93,000</u>	<u>61,488,423</u>
Change in Net Assets					7,526,800	29,775	7,556,575
Net Assets Beginning of Year					<u>27,774,106</u>	<u>111,695</u>	<u>27,885,801</u>
Net Assets End of Year					<u>\$ 35,300,906</u>	<u>\$ 141,470</u>	<u>\$ 35,442,376</u>

See accompanying notes to the basic financial statements.

SOLON CITY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,341,141	\$ 1,907,944	\$ 8,105,509	\$ 13,354,594
Restricted Asset:				
Equity in Pooled Cash and Cash Equivalents	233,776	0	0	233,776
Investments	0	0	2,902,708	2,902,708
Receivables:				
Taxes	47,342,258	3,543,290	1,298,577	52,184,125
Accounts	7,762	0	10,224	17,986
Intergovernmental	91,935	0	7,115	99,050
Interfund	6,098	0	0	6,098
Prepaid Items	20,427	0	0	20,427
Materials and Supplies Inventory	61,958	0	0	61,958
Total Assets	<u>\$ 51,105,355</u>	<u>\$ 5,451,234</u>	<u>\$ 12,324,133</u>	<u>\$ 68,880,722</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 133,364	\$ 0	\$ 26,491	\$ 159,855
Contracts Payable	0	0	238,344	238,344
Accrued Salaries and Benefits Payable	4,766,295	0	0	4,766,295
Interfund Payable	0	0	3,098	3,098
Intergovernmental Payable	654,364	0	1,697	656,061
Deferred Revenue	41,210,096	3,033,201	1,141,078	45,384,375
Compensated Absences Payable	122,063	0	0	122,063
Retirement Payout Liability	1,130,219	0	0	1,130,219
Total Liabilities	<u>48,016,401</u>	<u>3,033,201</u>	<u>1,410,708</u>	<u>52,460,310</u>
Fund Balances				
Reserved for:				
Budget Stabilization	233,776	0	0	233,776
Taxes	5,441,168	407,239	149,249	5,997,656
Encumbrances	43,897	0	1,050,721	1,094,618
Prepays	36,844	0	0	36,844
Inventory	61,958	0	0	61,958
Unreserved, Undesignated, Reported In:				
General Fund (Deficit)	(2,728,689)	0	0	(2,728,689)
Special Revenue Funds	0	0	1,515,602	1,515,602
Debt Service Fund	0	2,010,794	0	2,010,794
Capital Projects Fund	0	0	8,197,853	8,197,853
Total Fund Balances	<u>3,088,954</u>	<u>2,418,033</u>	<u>10,913,425</u>	<u>16,420,412</u>
Total Liabilities and Fund Balances	<u>\$ 51,105,355</u>	<u>\$ 5,451,234</u>	<u>\$ 12,324,133</u>	<u>\$ 68,880,722</u>

See accompanying notes to the basic financial statements.

**SOLON CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total Governmental Fund Balances		\$16,420,412
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not functional resources and therefore are not reported in the funds.		45,582,906
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	<u>3,039,234</u>	
Total		3,039,234
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		635,457
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		
General Obligation Bonds	(25,449,962)	
Compensated Absences	(4,710,536)	
Intergovernmental Payable	(118,454)	
Accrued Interest Payable	<u>(98,151)</u>	
Total		<u>(30,377,103)</u>
Net Assets of Governmental Activities		<u>\$ 35,300,906</u>

See accompanying notes to the basic financial statements.

SOLON CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 45,007,763	\$ 3,357,228	\$ 1,987,365	\$ 50,352,356
Intergovernmental	7,264,907	335,238	1,437,766	9,037,911
Tuition and Fees	712,358	0	0	712,358
Earnings on Investments	76,609	0	51,932	128,541
Extracurricular Activities	0	0	731,027	731,027
Classroom Materials and Fees	55,161	0	0	55,161
Charges for Services	33,990	0	0	33,990
Miscellaneous	308,070	0	951,952	1,260,022
Total Revenues	53,458,858	3,692,466	5,160,042	62,311,366
Expenditures				
Current:				
Instruction:				
Regular	26,909,257	0	556,641	27,465,898
Special	5,416,662	0	27,283	5,443,945
Vocational Education	569,939	0	0	569,939
Adult/Continuing	0	0	210	210
Other	227,959	0	0	227,959
Support Services:				
Pupil	2,913,316	0	625,772	3,539,088
Instructional Staff	2,038,652	0	93,351	2,132,003
Board of Education	26,628	0	0	26,628
Administrative	3,122,848	0	0	3,122,848
Fiscal Services	1,126,478	10,000	0	1,136,478
Business	974,393	0	0	974,393
Operation and Maintenance of Plant	6,031,905	0	0	6,031,905
Pupil Transportation	2,583,367	0	0	2,583,367
Central Services	651,424	0	64,391	715,815
Operation of Non-Instructional Services:				
Community Service	0	0	328,250	328,250
Extracurricular Activities	906,305	0	1,036,617	1,942,922
Capital Outlay	0	0	2,748,801	2,748,801
Debt Service:				
Principal Retirement	0	8,125,000	0	8,125,000
Interest and Fiscal Charges	0	1,208,579	0	1,208,579
Total Expenditures	53,499,133	9,343,579	5,481,316	68,324,028
Excess of Revenues Over (Under)				
Expenditures	(40,275)	(5,651,113)	(321,274)	(6,012,662)
Other Financing Sources (Uses)				
Payment in Lieu of Taxes	2,357,993	0	0	2,357,993
Proceeds from Sale of Assets	70,358	0	0	70,358
Insurance Proceeds	0	0	417,881	417,881
Proceeds from Sale of Bonds	0	6,018,042	0	6,018,042
Transfers Out	(93,000)	0	0	(93,000)
Total Other Financing Sources (Uses)	2,335,351	6,018,042	417,881	8,771,274
Net Change in Fund Balances	2,295,076	366,929	96,607	2,758,612
Fund Balances, Beginning of Year	793,878	2,051,104	10,816,818	13,661,800
Fund Balances, End of Year	\$ 3,088,954	\$ 2,418,033	\$10,913,425	\$16,420,412

See accompanying notes to the basic financial statements.

**SOLON CITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances -Total Governmental Funds \$ 2,758,612

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

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

Capital Additions	2,686,988	
Current Year Depreciation	<u>(2,222,175)</u>	
Total		464,813

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

Taxes	242,955	
Intergovernmental	<u>(175,000)</u>	
Total		67,955

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 8,125,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (10,930)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (6,000,000)

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

Intergovernmental Payable	294,900	
Compensated Absences Payable	<u>1,761,351</u>	
Total		2,056,251

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 65,099

Change in Net Assets of Governmental Activities. \$ 7,526,800

See accompanying notes to the basic financial statements.

SOLON CITY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$43,931,071	\$44,297,000	\$42,265,963	\$(2,031,037)
Intergovernmental	7,059,030	4,450,000	7,264,907	2,814,907
Revenue in Lieu of Taxes	2,072,162	2,500,000	2,357,993	(142,007)
Interest	227,115	200,000	258,443	58,443
Tuition and Fees	607,944	685,000	691,803	6,803
Classroom Materials and Fees	50,834	61,000	57,846	(3,154)
Contributions and Donations	145,295	130,000	165,337	35,337
Rentals	115,584	135,000	131,527	(3,473)
Miscellaneous	13,965	20,000	15,891	(4,109)
Total Revenues	<u>54,223,000</u>	<u>52,478,000</u>	<u>53,209,710</u>	<u>731,710</u>
Expenditures				
Current				
Instruction:				
Regular Instruction	26,510,774	26,927,993	26,499,185	428,808
Special Instruction	5,147,790	5,234,809	5,390,129	(155,320)
Vocational Education	564,800	566,186	571,756	(5,570)
Other Instruction	203,700	203,700	228,080	(24,380)
Support Services:				
Pupil	3,211,134	3,257,626	2,813,209	444,417
Instructional Staff	1,724,960	1,743,080	1,859,629	(116,549)
Board of Education	43,700	43,700	33,013	10,687
Administrative	3,187,612	3,227,472	3,140,475	86,997
Fiscal Services	1,242,500	1,250,299	1,112,899	137,400
Business	956,400	957,267	965,517	(8,250)
Operation and Maintenance of Plant Services	5,981,480	6,075,472	6,223,939	(148,467)
Pupil Transportation	2,577,300	2,653,988	2,614,485	39,503
Central Services	728,950	736,589	654,481	82,108
Extracurricular Activities	900,300	903,219	907,967	(4,748)
Total Expenditures	<u>52,981,400</u>	<u>53,781,400</u>	<u>53,014,764</u>	<u>766,636</u>
Excess of Revenues Over (Under) Expenditures	<u>1,241,600</u>	<u>(1,303,400)</u>	<u>194,946</u>	<u>1,498,346</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	0	0	70,358	70,358
Operating Transfer Out	(50,000)	(135,000)	(93,000)	42,000
Advances In	0	24,657	24,657	0
Advances Out	0	0	(6,098)	(6,098)
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(110,343)</u>	<u>(4,083)</u>	<u>106,260</u>
Net Change in Fund Balances	1,191,600	(1,413,743)	190,863	1,604,606
Fund Balance Beginning of Year	3,317,671	3,317,671	3,317,671	0
Prior Year Encumbrances Appropriated	179,044	179,044	179,044	0
Fund Balance End of Year	<u>\$ 4,688,315</u>	<u>\$ 2,082,972</u>	<u>\$ 3,687,578</u>	<u>\$ 1,604,606</u>

See accompanying notes to the basic financial statements.

**SOLON CITY SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004**

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
<u>Assets</u>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 1,567	\$ 2,003,470
Receivables:		
Intergovernmental Receivable	21,441	0
Materials and Supplies Inventory	2,858	0
Inventory Held for Resale	44,717	0
Total Current Assets	70,583	2,003,470
Non-Current Assets:		
Depreciable Capital Assets, Net	170,079	0
Total Non-Current Assets	170,079	0
Total Assets	240,662	2,003,470
<u>Liabilities</u>		
Current Liabilities:		
Accounts Payable	0	60,013
Accrued Wages	18,017	0
Deferred Revenues	12,497	0
Interfund Payable	3,000	0
Compensated Absences Payable - Current Portion	261	0
Claims Payable	0	1,308,000
Total Current Liabilities	33,775	1,368,013
Long-Term Liabilities:		
Compensated Absences Payable	65,417	0
Total Long-Term Liabilities	65,417	0
Total Liabilities	99,192	1,368,013
<u>Net Assets</u>		
Invested in Capital Assets	359,891	0
Unrestricted (Deficit)	(218,421)	635,457
Total Net Assets	\$ 141,470	\$ 635,457

See accompanying notes to the basic financial statements.

SOLON CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
<u>Operating Revenues</u>		
Tuition	\$ 84,215	\$ 0
Food Services	1,070,666	0
Classroom Materials and Fees	107,524	0
Charges for Services	0	5,677,482
Miscellaneous	<u>20,059</u>	<u>0</u>
Total Operating Revenues	<u>1,282,464</u>	<u>5,677,482</u>
<u>Operating Expenses</u>		
Salaries and Wages	438,358	0
Fringe Benefits	341,464	5,313,383
Claims	0	299,000
Purchased Services	67,122	0
Supplies and Materials	571,702	0
Depreciation	25,167	0
Capital Outlay	159	0
Other	<u>2,690</u>	<u>0</u>
Total Operating Expenses	<u>1,446,662</u>	<u>5,612,383</u>
Operating Income (Loss)	<u>(164,198)</u>	<u>65,099</u>
<u>Non-Operating Revenues</u>		
Operating Grants	92,560	0
Donated Commodities	<u>8,413</u>	<u>0</u>
Total Non-Operating Revenues	<u>100,973</u>	<u>0</u>
Income Before Operating Transfers	<u>(63,225)</u>	<u>65,099</u>
<u>Operating Transfers</u>		
Transfers In	<u>93,000</u>	<u>0</u>
Total Operating Transfers	<u>93,000</u>	<u>0</u>
Change in Net Assets	29,775	65,099
Net Assets - Beginning of Year	<u>111,695</u>	<u>570,358</u>
Net Assets - End of Year	<u>\$ 141,470</u>	<u>\$ 635,457</u>

See accompanying notes to the basic financial statements.

**SOLON CITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Fund
<u>Cash Flows from Operating Activities</u>		
Cash Received from Customers	\$ 1,284,144	\$ 5,677,482
Cash Payments for Goods and Services	(648,809)	0
Cash Payments for Employees for Services	(457,971)	0
Cash Payments for Employee Benefits	(357,253)	0
Cash Payments for Claims	0	(5,253,370)
Cash Payments for Other Operating Expenses	(2,690)	0
Net Cash Provided by (Used for) Operating Activities	<u>(182,579)</u>	<u>424,112</u>
<u>Cash Flows from Noncapital Financing Activities</u>		
Operating Grants Received	83,345	0
Operating Transfers	96,000	0
Net Cash Provided by Noncapital Financing Activities	<u>179,345</u>	<u>0</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Payments for Capital Acquisition	(5,434)	0
Net Cash Provided by Capital and Related Financing Activities	<u>(5,434)</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,668)	424,112
Cash and Cash Equivalents, Beginning of Year	<u>10,235</u>	<u>1,579,358</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,567</u>	<u>\$ 2,003,470</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>		
Operating Income (Loss)	\$ (164,198)	\$ 65,099
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>		
Depreciation	25,167	0
Donated Governmental Commodity	8,413	0
(Increase) Decrease in Assets:		
Accounts Receivable	1,680	0
Inventory Held for Resale	(16,120)	0
Materials and Supplies Inventory	(635)	0
Increase (Decrease) in Liabilities:		
Accounts Payable	0	60,013
Accrued Salaries and Benefits Payable	(19,613)	0
Intergovernmental Payable	(30,066)	0
Deferred Revenue	(1,484)	0
Compensated Absences Payable	14,277	0
Claims Payable	0	299,000
Total Adjustments	<u>(18,381)</u>	<u>359,013</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (182,579)</u>	<u>\$ 424,112</u>

Noncash Non Capital Financing Activities:

During the year, the Food Services Enterprise Fund received Donated Commodities of \$8,413.

See accompanying notes to the basic financial statements.

**SOLON CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004**

	<u>Agency</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ <u>326,855</u>
Total Assets	\$ <u>326,855</u>
<u>Liabilities</u>	
Due to Students	\$ 77,082
Due to Other Governments	<u>249,773</u>
Total Liabilities	\$ <u>326,855</u>

See accompanying notes to the basic financial statements.

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SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: DESCRIPTION OF THE DISTRICT AND THE REPORTING ENTITY

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

The School District operates under a locally elected five-member Board and provides educational services as mandated by State and/or federal agencies. The Board controls the School District's seven instructional facilities staffed by 255 classified personnel, 383 certificated full-time teaching personnel, and 24 administrative employees to provide services to students and other community members.

The School District is located in Solon, Ohio, Cuyahoga County. The enrollment for the School District during fiscal year 2004 was 5,102. The School District operates four elementary schools (K-1), one lower middle school (5-6), one upper middle school (7-8), and one high school (9-12).

The Reporting Entity

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

Within the School District boundaries, there are various non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the Treasurer of the School District, as directed by the non-public school. This activity is reflected in a special revenue fund for financial reporting purposes.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and:

- (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 1: **DESCRIPTION OF THE DISTRICT AND THE REPORTING ENTITY** (Continued)

The Reporting Entity (Continued)

(2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with a public entity risk pool and a jointly governed organization. The public entity risk pool is presented in Note 11 and the jointly governed organization is presented in Note 17 to the financial statements.

These organizations are:

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

Jointly Governed Organization:

The Ohio Schools' Council Association

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

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

A. **Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories of governmental, proprietary and fiduciary.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

A. **Fund Accounting** (Continued)

Governmental Funds

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

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

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

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

Proprietary Funds

Proprietary funds focus on the determination of the changes in net assets, financial positions and cash flows and are classified as either enterprise or internal service.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's enterprise funds account for the financial transactions related to the food service operations. Also, the purchase and sale of school supplies and educational opportunities are offered on a tuition basis to preschoolers, youth and adults living within the community. The School District has no major enterprise funds.

Internal Service Fund - The internal service fund accounts for the financial services provided by one department or agency to other departments or agencies of the School District, or to other governments, on a cost reimbursement basis. The only internal service fund of the School District accounts for a self-insurance program which provides medical, dental and vision benefits.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

A. **Fund Accounting** (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds are student activities and pension liability funds.

B. **Basis of Presentation**

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

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

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

The statement of net assets presents the financial condition of the governmental activities of the School District at the fiscal year end. The government-wide statement of activities present a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

B. **Basis of Presentation** (Continued)

Government-wide Financial Statements (Continued)

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

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

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

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

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

C. **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

C. **Basis of Accounting** (Continued)

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2004 but which were levied to finance fiscal year 2005 operations have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

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

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

D. **Cash and Cash Equivalents**

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

During fiscal year 2004, investments were limited to STAROhio, repurchase agreements, and Federal Government Agency Securities. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. Repurchase agreements are reported at cost.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

D. Cash and Cash Equivalents (Continued)

STAROhio (the State Treasury Asset Reserve of 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. STAROhio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$258,443 which includes \$29,469 assigned from other School District funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not purchased from the pool are considered to be investments.

E. Restricted Assets

Restricted assets represent cash and cash equivalents and other current assets whose use is limited by legal requirements. Restricted assets in the general fund include the amount required by statute to be set aside by the School District for the budget stabilization. See Note 19 for additional information regarding set-asides.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditures/expense is reported in the year in which services are consumed.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general capital assets are not capitalized.

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

**SOLON CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2004
 (CONTINUED)**

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

H. **Capital Assets** (Continued)

	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Land Improvements	20 years	N/A
Buildings and Improvements	60 years	N/A
Furniture and Equipment	5-20 years	5-20 years
Buses and Other Vehicles	12 years	N/A

I. **Interfund Balances**

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

J. **Compensated Absences**

The School District reports compensated absences in accordance with the provision of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital lease, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, and available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability and expenditures in the fund financial statements when due.

L. Fund Balance Reserves

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

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

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

M. **Net Assets**

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

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

N. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition for adult education class, sales for food service, uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenditures not meeting this definition are reported as non-operating.

O. **Interfund Activity**

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financial 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.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

P. 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. During fiscal year 2004, the School District received \$483,446 insurance proceeds for tornado damages which was recorded as an extraordinary item.

Q. Estimates

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

R. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances In and Advances Out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

R. **Budgetary Data** (Continued)

Estimated Resources

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 School 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District's Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final Amended Certificate issued during fiscal year 2004.

Appropriations

Upon receipt from the County Auditor of an amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, 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 the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Treasurer maintains budgetary information at the object level and has the authority to allocate appropriations at the function and object level without resolution by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the fiscal year, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

R. **Budgetary Data** (Continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the fund financial statements, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

A. **Accountability**

Fund balance/retained earnings at June 30, 2004 included the following individual fund deficits:

	<u>Deficit Fund Balance/ Retained Earnings</u>
<i>Special Revenue Fund:</i>	
Preschool Grant	\$ 28
<i>Enterprise Fund:</i>	
Adult Education	2,710

The deficit in the special revenue fund resulted from accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The enterprise fund had a deficit in retained earnings. Management is analyzing the operations to determine appropriate steps to alleviate the deficit.

**SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

B. Legal Compliance

Section 5704.41 (B), Ohio Revised Code, states no subdivision shall make any expenditure of money unless it has been appropriated. Section 5704.41 (D), Ohio Revised Code, states in part that encumbrances should be charged against proper appropriations and actual disbursements plus outstanding encumbrances should not be greater than the total appropriations. The following fund had expenditures in excess of appropriations at March 31, 2004:

	<u>Total</u> <u>Appropriations</u>	<u>Total</u> <u>Expenditures</u>	<u>Variance</u>
Enterprise Fund:			
Uniform School Supplies	\$ 97,630	\$ 117,034	\$ (19,404)

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

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

**SOLON CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2004
 (CONTINUED)**

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

Net Change in Fund Balance

GAAP Basis	\$2,295,076
Advances In	24,657
Net Adjustment for Revenue Accruals	(2,607,141)
Net Adjustments for Expenditure Accruals	537,805
Advances Out	(6,098)
Adjustment for Encumbrances	<u>(53,436)</u>
Budget Basis	<u>\$ 190,863</u>

NOTE 5: **DEPOSITS AND INVESTMENTS**

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

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

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

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

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

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

1. United States Treasury notes, bills, bonds, or 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 other obligations or securities issued by any federal government agency or instrumentality, including but not limited to the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 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 rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments 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.

**SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

Cash on Hand

At fiscal year end, the School District had \$2,545 in undeposited cash on hand, which is included on the balance sheet of the School District as part of “Equity in Pooled Cash and Cash Equivalents”.

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

Deposits

At fiscal year end, the carrying amount of the School District's deposits was \$448,733 and the bank balance was \$1,038,476. Of the bank balance:

1. \$250,400 of the bank balance was covered by federal depository insurance; and
2. \$788,076 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments

The School District’s investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s trust department or agent in the School District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District’s name. The School District invests in STAROhio, the State Treasurer’s Investment Pool, and Victory Money Market Mutual Fund, which are not classified by degree of credit risk since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
STAROhio	Noncategorized	\$ 1,217,897	\$ 1,217,897
Victory Money Market Mutual Fund	\$ 4,710,282	4,710,282	4,710,282
Federal National Mortgage Association Notes	4,523,721	4,523,721	4,523,721
Federal Home Loan Bank Bonds	3,541,336	3,541,336	3,541,336
Federal Home Loan Mortgage Corporation Notes	4,378,458	4,378,458	4,378,458
Total Investments	<u>\$17,153,797</u>	<u>\$18,371,694</u>	<u>\$18,371,694</u>

**SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement 9	\$15,920,264	\$ 2,902,708
Petty Cash	(2,545)	0
Investments which are part of a Cash Management Pool:		
STAROhio	(1,217,897)	1,217,897
Victory Money Market Mutual Fund	(4,710,282)	4,710,282
Federal National Mortgage Association Notes	(4,523,721)	4,523,721
Federal Home Loan Bank Bonds	(3,541,336)	3,541,336
Federal Home Loan Mortgage Corporation Notes	<u>(1,475,750)</u>	<u>1,475,750</u>
GASB Statement No. 3	<u>\$ 448,733</u>	<u>\$18,371,694</u>

NOTE 6: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are paid 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

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

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 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, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$5,441,168 in the general fund, \$407,239 in the bond retirement debt service fund, and \$149,249 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2003 was \$2,900,165 in the general fund, \$211,189 in the bond retirement debt service fund, and \$80,263 in the permanent improvement capital projects fund. The increase is due to the timing of the collections by the County.

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 2004 taxes were collected are:

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 6: PROPERTY TAXES (Continued)

	<u>2003 Second-Half Collections</u>		<u>2004 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 903,046,700	78.78%	\$ 974,067,710	81.46%
Public Utility Personal	22,725,570	1.98%	23,232,460	1.94%
Tangible Personal Property	<u>220,580,157</u>	<u>19.24%</u>	<u>198,534,575</u>	<u>16.60%</u>
	<u>\$ 1,146,352,427</u>	<u>100.00%</u>	<u>\$1,195,834,745</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed valuation	\$ 68.40		\$ 68.40	

NOTE 7: RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Orange City Schools	\$ 67,897
City of Solon	23,738
Cuyahoga County	300
Emergency Immigrant Education Assistance Grant	<u>7,115</u>
Total Governmental Activities	<u>99,050</u>
Business-Type Activities:	
Food Service Lunch Reimbursement	<u>21,441</u>
Total Intergovernmental Receivables	<u>\$ 120,491</u>

NOTE 8: INTERFUND ASSETS/LIABILITIES

As of June 30, 2004, on the fund financial statements, the Emergency Immigrant Education Assistance Grant nonmajor special revenue fund owed the general fund \$3,098. This amount is represented as "Interfund Receivable/Payable" on the balance sheet. The advance was made to cover fund deficit due to late payment of grant. The loan will be paid back after the grant is received.

In addition, the Uniform School Supplies nonmajor enterprise fund owed the general fund \$3,000. The advance was made to cover fund deficit for the purchase of uniforms. The loan will be paid back after student fees are received. These amounts are represented as "Interfund Receivables/Payables" on the balance sheet.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 9: CAPITAL ASSETS

	Balance at 6/30/2003	Additions	Reductions	Balance at 6/30/2004
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,583,983	\$ 172,511	\$ 0	\$ 2,756,494
Construction in Progress	698,005	1,918,398	0	2,616,403
<i>Total Capital Assets, not being depreciated</i>	<u>3,281,988</u>	<u>2,090,909</u>	<u>0</u>	<u>5,372,897</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,549,974	0	0	2,549,974
Buildings and Building Improvements	48,898,047	0	0	48,898,047
Furniture and Equipment	10,702,146	412,271	202,369	10,912,048
Buses and Other Vehicles	2,737,623	183,808	111,000	2,810,431
Totals at Historical Cost	<u>64,887,790</u>	<u>596,079</u>	<u>313,369</u>	<u>65,170,500</u>
Less Accumulated Depreciation:				
Land Improvements	(1,476,736)	(122,172)	0	(1,598,908)
Buildings and Building Improvements	(13,775,197)	(820,977)	0	(14,596,174)
Furniture and Equipment	(6,223,312)	(1,090,803)	(202,369)	(7,111,746)
Buses and Other Vehicles	(1,576,440)	(188,223)	(111,000)	(1,653,663)
Total Accumulated Depreciation	<u>(23,051,685)</u>	<u>(2,222,175)</u>	<u>(313,369)</u>	<u>(24,960,491)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>41,836,105</u>	<u>(1,626,096)</u>	<u>0</u>	<u>40,210,009</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 45,118,093</u>	<u>\$ 464,813</u>	<u>\$ 0</u>	<u>\$ 45,582,906</u>
<u>Business-Type Activities</u>				
Equipment	\$ 580,901	\$ 5,434	\$ 0	\$ 586,335
Less Accumulated Depreciation - Equipment	(391,089)	(25,167)	0	(416,256)
Business-Type Activities				
Capital Assets, Net	<u>\$ 189,812</u>	<u>\$ (19,733)</u>	<u>\$ 0</u>	<u>\$ 170,079</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$ 1,454,632
Special		36,450
Vocational		10,469
Support Services:		
Pupils		71,625
Administration		22,833
Fiscal		7,561
Business		5,670
Operation and Maintenance of Plant		120,902
Pupil Transportation		188,223
Central		20,050
Operation of Non-Instructional Services		63,743
Extracurricular Activities		220,017
Total Depreciation Expense		<u>\$ 2,222,175</u>

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 10: CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had contractual purchase commitments as follows:

Project	Amount Outstanding
Football Turf Replacement	\$ 932,729
Roof Repair	175,970
Masonry/Window Replacement	92,720
Total	\$ 1,201,419

NOTE 11: RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During fiscal year 2004, the School District contracted with the following insurance companies:

Company	Type of Coverage	Coverage
Indiana Insurance Company	Property Coverage:	
	Blanket Buildings and Contents	\$ 116,228,662
	Extra Expense and Valuable Papers	1,000,000
Indiana Insurance Company	Inland Marine:	
	Athletic and Other Equipment	200,000
	Musical Instruments	100,000
	Audio Visual Equipment	100,000
	Fine Arts	100,000
	Signs	10,000
Indiana Insurance Company	Commercial Crime Coverage:	
	Employee Dishonesty	100,000
	Money and Securities	25,000
Indiana Insurance Company	Auto Liability	2,000,000
	Uninsured Motorist	100,000
Ohio School Risk Sharing Authority	Education Liability:	
	Each Occurrence	1,000,000
	Fire Damage	10,000
	Medical Expense	10,000
	General Aggregate	3,000,000
	Employee Benefits Liability:	
	Employee Benefits Injury	
	(each offense limit)	1,000,000
	(aggregate limit)	3,000,000
	Employee's Liability and Stop Gap:	
	Bodily Injury by Accident	1,000,000
(Each occurrence)		
Errors and Omissions Injury	1,000,000	
Employment Practices Injury	1,000,000	

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 11: **RISK MANAGEMENT** (Continued)

A. **Property and Liability** (Continued)

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

B. **Employee Benefits**

The School District has elected to contract with Medical Mutual of Ohio as a program administrator to provide medical benefits for employees through a self-insured program. These benefits are accounted for in the general fund. An excess coverage insurance (stop loss) policy covers claims in excess of \$100,000 per employee.

The internal service fund pays for the costs of providing claims servicing and claims payment. The premiums charged for family and single coverage are \$900 for classified employees and \$780 for certified employees. The benefits that are included in this lump sum premium are medical, dental, vision, and life insurance.

The claims liability of \$1,308,000 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The balance of claims payable at June 30, 2004 represents an estimate of the liability for unpaid claims costs provided by Medical Mutual of Ohio. In fiscal year 2004, the School District paid \$558,000 in administrative costs. Changes in the claims liability for 2001 through 2004 were:

	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
June 30, 2001	\$ 962,324	\$ 3,350,398	\$ 3,840,460	\$ 472,262
June 30, 2002	\$ 472,262	\$ 5,598,500	\$ 5,083,762	\$ 987,000
June 30, 2003	\$ 987,000	\$ 3,731,133	\$ 3,709,133	\$ 1,009,000
June 30, 2004	\$ 1,009,000	\$ 5,111,936	\$ 4,812,936	\$ 1,308,000

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 11: **RISK MANAGEMENT** (Continued)

C. **Workers' Compensation**

For fiscal year 2004, the School District participated in the Ohio Schools' Council Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool (Note 19). The Plan is intended to reduce premiums for the participants. The Workers' Compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

Each participant pays its Workers' Compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This equity pooling arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. Each year, the School District pays an enrollment fee to the Plan to cover costs of administering the program.

NOTE 12: **DEFINED BENEFIT PENSION PLANS**

A. **School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.06 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 12: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **School Employees Retirement System** (Continued)

pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount by SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$702,314, \$602,843, and \$372,176, respectively; 50.18 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002.

B. **State Teachers Retirement System**

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

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

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 12: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.3 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$3,773,466, \$3,313,657, and \$2,446,518, respectively; 82.61 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$27,042 made by the School District and \$36,155 made by the plan members.

NOTE 13: **POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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 System based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 13: **POSTEMPLOYMENT BENEFITS** (Continued)

STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$269,533 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay has been established at \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$497,812.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**SOLON CITY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2004
 (CONTINUED)**

NOTE 14: OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to classified employees for 100 percent of the total sick leave accumulation, up to a maximum accumulation of 100 days, and for one-fourth of the remaining accumulated sick leave with a maximum accumulation of 150 days. Upon retirement, payment is made to teachers and administrators for 100 percent of total sick leave accumulation, with a maximum accumulation of 75 days.

B. Retirement Incentive

Starting in fiscal year 2002, the School District offers a one-time retirement incentive payment of 75 percent of the employee's current salary to eligible certified employees. The certified employee who retires with 30 years of service and is immediately eligible to receive benefits from STRS will be paid the retirement incentive.

At June 30, 2004, the School District's retirement payout liability was \$1,130,219.

NOTE 15: INTERFUND TRANSACTIONS

<u>Transfer to</u>	<u>Transfer from</u>
	<u>General</u>
Nonmajor Enterprise Fund	\$ 93,000
Total	\$ 93,000

The transfers to the nonmajor enterprise funds were made to cover fund deficits at year end.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 16: LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	<u>Principal Outstanding at 6/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding at 6/30/04</u>	<u>Amounts Due in One Year</u>
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
1989 \$2,850,000 School Improvement Bonds - 6.90%	\$ 1,445,000	\$ 0	\$ 165,000	\$ 1,280,000	\$ 180,000
1993 \$19,699,962 Refunding School Improvement Bonds - 2.8 - 5.3%	8,329,962	0	1,520,000	6,809,962	440,785
1997 \$6,000,000 School Improvement Bonds - 3.6-5.5%	5,160,000	0	195,000	4,965,000	215,000
2001 \$7,000,000 School Improvement Bonds - 4.0-5.13%	6,640,000	0	245,000	6,395,000	255,000
2003 \$6,000,000 School Improvement bonds - 2.0-5.00%	<u>0</u>	<u>6,000,000</u>	<u>0</u>	<u>6,000,000</u>	<u>210,000</u>
Total General Obligation Bonds	<u>21,574,962</u>	<u>6,000,000</u>	<u>2,125,000</u>	<u>25,449,962</u>	<u>1,300,785</u>
<u>Other General Long-Term Obligations</u>					
2003 Bond Anticipation Note-1.15% Compensated Absences	6,000,000	0	6,000,000	0	0
	<u>6,615,886</u>	<u>0</u>	<u>1,783,287</u>	<u>4,832,599</u>	<u>759,004</u>
Total Other General Long-Term Obligations	<u>12,615,886</u>	<u>0</u>	<u>7,783,287</u>	<u>4,832,599</u>	<u>759,004</u>
Total Governmental Long-Term Liabilities	<u>\$ 34,190,848</u>	<u>\$ 6,000,000</u>	<u>\$ 9,908,287</u>	<u>\$ 30,282,561</u>	<u>\$ 2,059,789</u>
<u>Business-Type Activities</u>					
Compensated Absences	<u>\$ 51,400</u>	<u>\$ 16,973</u>	<u>\$ 0</u>	<u>\$ 68,373</u>	<u>\$ 261</u>

In 1989, the School District issued \$2,850,000 in general obligation bonds at 6.9 percent with maturity date on December 1, 2009. On February 15, 1997, the School District issued \$6,000,000 with an interest rate of 3.6 to 5.5 percent, maturity date on December 1, 2016. On May 1, 2001, the School District issued \$7,000,000, 4.0 to 5.5 percent general obligation bonds with maturity date on June 30, 2020.

On July 1, 1993 the School District issued \$19,699,962 of general obligation bonds for the purpose of advance refunding \$20,400,000 school improvement bonds. The refunding bonds have interest rates ranging from 2.8 percent to 5.3 percent and maturity date on June 30, 2013. The refunded school improvement bonds plus accrued interest are considered defeased and were fully retired on December 1, 2001.

On December 1, 2003, the School District issued \$6,000,000 of general obligation bonds with interest rates ranging from 2.0 to 5.0 percent, payable semiannually. The bond maturity date is December 1, 2023. Principal payments commenced on December 1, 2004.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 16: **LONG-TERM OBLIGATIONS** (Continued)

All the general obligation bonds are issued to fund various school improvements and will be repaid from property taxes in the debt service fund.

Compensated absences will be paid from the funds where the employee's salary is paid.

The School District's overall legal debt margin was \$86,232,602 with an unvoted debt margin of \$1,214,050 at June 30, 2004. Principal and interest requirements to retire the bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		Total
	Principal	Interest	
2005	\$ 1,300,785	\$ 2,238,369	\$ 3,539,154
2006	1,308,567	2,166,996	3,475,563
2007	1,317,213	2,097,102	3,414,315
2008	1,314,632	1,945,145	3,259,777
2009	1,328,765	1,836,649	3,165,414
2010-2014	10,385,000	3,495,767	13,880,767
2015-2019	5,460,000	1,399,454	6,859,454
2020-2024	<u>3,035,000</u>	<u>311,709</u>	<u>3,346,709</u>
Total	<u>\$ 25,449,962</u>	<u>\$ 15,491,191</u>	<u>\$ 40,941,153</u>

NOTE 17: **JOINTLY GOVERNED ORGANIZATION**

The Ohio Schools' Council Association (Council) is a jointly governed organization among 82 school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council sponsors a Workers' Compensation Group Rating Plan, which is an insurance purchasing pool. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose terms rotate every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2004, the School District paid \$2,036 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary/Treasurer of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 17: **JOINTLY GOVERNED ORGANIZATION** (Continued)

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

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 1999. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

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

NOTE 18: **CONTINGENCIES**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

NOTE 19: **SET ASIDE REQUIREMENTS**

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

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 19: **SET ASIDE REQUIREMENTS** (Continued)

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

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
Set-Aside Reserve Balances as of June 30, 2003	\$ 233,776	\$ 0	\$(1,007,550)
Current Year Set-Aside Requirements	0	732,374	732,374
Current Year Offsets	0	(1,169,398)	0
Reduction Authorized by Legislative Revisions		0	0
Qualifying Disbursements	<u>0</u>	<u>0</u>	<u>(994,856)</u>
Totals	<u>\$ 233,776</u>	<u>\$ (437,024)</u>	<u>\$(1,270,032)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$ 233,776</u>	<u>\$ 0</u>	<u>\$(1,270,032)</u>
Cash Balance Carried Forward to Fiscal Year 2005	<u>\$ 233,776</u>	<u>\$ 0</u>	<u>\$ 0</u>

The School District had current year offsets during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future years. The negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$233,776.

NOTE 20: **STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

SOLON CITY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(CONTINUED)

NOTE 21: PAYMENT IN LIEU OF TAXES

A. Foreign Trade Zone and Community and Reinvestment Area Tax Abatements

In March 2004, Swagelok Company, located within the School District's limits, applied for and received an activated permanent General Purpose Foreign Trade Zone and a Community Reinvestment Area Tax Abatement in connection with a proposed expansion project. In connection with the above, the School District entered into a Revenue Sharing Agreement with the City of Solon to compensate the School District for a loss of anticipated revenues resulting from the Community Reinvestment Area and Foreign Trade Zone tax exemptions. Swagelok Company has also agreed to make payments in lieu of taxes to the School District for a portion of the loss of anticipated revenue resulting from the property tax exemptions. In fiscal year 2004, the School District received \$500,000 from Swagelok Company and \$1,415,277 from the City of Solon. The School District will receive \$50,000 per year from the Swagelok Company through the year 2014, and will receive \$1,597,676 in fiscal year 2005 and \$712,930 in fiscal year 2006 from the City of Solon.

B. Tax Rebatement Agreement

In March 2004, the School District and Stouffer Corporation entered into a Stipulation of Value agreement. The agreement, filed with the Cuyahoga County Board of Tax Appeals, will result in a refund of taxes to Stouffer Corporation for the tax years 2000, 2001, and 2002, due to the reduction in property value. The Stouffer Corporation has agreed to refund the portion of taxes levied by the Solon Board of Education for those years. The total amount levied for the tax years 2000 through 2002 and refunded to the School District in fiscal year 2004 was \$442,716. The School District will receive an additional \$158,436 over the next two fiscal years.

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**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Grantor Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Receipts	Federal Non-Cash Receipts	Federal Expenditures	Federal Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
Passed Through State Department of Education:						
Title I Grants to Local Educational Agencies	84.010	C1-S1 2004	\$98,439	\$ -	\$85,415	\$ -
Special Education Cluster :						
Special Education - Grants to States	84.027	6B-SF 2003	-	-	68,322	-
Special Education - Grants to States	84.027	6B-SF 2004	558,554	-	525,864	-
Total Special Education - Grants to States			558,554	-	594,186	-
Special Education - Preschool Grants	84.173	PG-S1 2003	1,626	-	4,067	-
Special Education - Preschool Grants	84.173	PG-S1 2004	24,358	-	24,358	-
Total Special Education - Preschool Grants			25,984	-	28,425	-
Total Special Education Cluster			584,538	-	622,611	-
Safe and Drug-Free Schools and Communities	84.186	DR-S1 2003	12,979	-	12,979	-
Total Safe and Drug-Free Schools and Communities			12,979	-	12,979	-
Innovative Education Program Strategies	84.298	C2-S1 2003	24,657	-	24,657	-
Innovative Education Program Strategies	84.298	C2-S1 2004	25,927	-	14,065	-
Total Innovative Education Program Strategies			50,584	-	38,722	-
Education Technology State Grants	84.318	TJ-S1 2004	3,568	-	3,492	-
English Language Acquisition Grants	84.365	T3-S1 2003	3,098	-	4,073	-
English Language Acquisition Grants	84.365	T3-S1 2004	23,210	-	23,210	-
Total English Language Acquisition Grants			26,308	-	27,283	-
Improving Teacher Quality State Grants	84.367	TR-S1 2003	44,126	-	39,297	-
Refugee and Entrant Assistance	93.576	RI SI 2003	-	-	2,370	-
Refugee and Entrant Assistance	93.576	RI SI 2004	2,500	-	-	-
			2,500	-	2,370	-
Total U.S. Department of Education			823,042	-	832,169	-
U.S. DEPARTMENT OF AGRICULTURE						
Passed Through State Department of Education:						
Nutrition Cluster:						
Food Distribution	10.550	N/A	-	62,475	-	62,475
National School Lunch Program	10.555	LLP4 2003	23,863	-	23,863	-
National School Lunch Program	10.555	LLP4 2004	58,237	-	58,237	-
Total - U.S. Department of Agriculture - Nutrition Cluster			82,100	62,475	82,100	62,475
Total Federal Financial Assistance			\$905,142	\$62,475	\$914,269	\$62,475

The accompanying notes are an integral part of the Schedule of Federal Award Expenditures.

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (Schedule) includes the federal grant activity of the District and is presented on the basis of cash receipts and disbursements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

NOTE B - NATIONAL SCHOOL LUNCH PROGRAM

Federal receipts from the U.S. Department of Agriculture are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and consumed. For the year ending June 30, 2004, the District expended food commodities valued at \$62,475.

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

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

Board of Education
Solon City School District
Cuyahoga County
33800 Inwood Road
Solon, Ohio 44139

We have audited the financial statements of the Solon City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the Government's basic financial statements and have issued our report thereon dated February 14, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially effect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 14, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated February 14, 2005.

Solon City School District
Cuyahoga County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

February 14, 2005



Auditor of State Betty Montgomery

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

Board of Education
Solon City School District
Cuyahoga County
33800 Inwood Road
Solon, Ohio 44139

Compliance

We have audited the compliance of the Solon City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

February 14, 2005

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(CONTINUED)**

**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

**SOLON CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code 5705.41(B) and (D) Expenditures plus encumbrances exceeding appropriations at the legal level of control	No	Partially Corrected, Re-issued in Management Letter



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**SOLON 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
APRIL 14, 2005**