



SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



Auditor of State  
Betty Montgomery



**OLMSTED FALLS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
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
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Activities .....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget Basis (Non-GAAP) and Actual – General Fund .....	19
Statement of Fund Net Assets– Internal Service Fund.....	20
Statement of Revenues, Expenses and Changes in Fund Assets- Internal Service Fund .....	21
Statement of Cash Flows– Internal Service Fund .....	22
Statement of Fiduciary Assets and Liabilities – Agency Fund .....	23
Notes to the Basic Financial Statements .....	25
Schedule of Federal Awards Receipts and Expenditures.....	53
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	54
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	55
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.....	57
Schedule of Findings .....	59

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Olmsted Falls City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Olmsted Falls City School District  
Cuyahoga County  
Independent Accountants' Report  
Page 2

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



**Betty Montgomery**  
Auditor of State

April 22, 2005

**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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The discussion and analysis of Olmsted Falls City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 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:

- Revenues for governmental activities totaled \$35,164,882 in 2004. Of this total \$31,776,477 or 90.4 percent consisted of General Revenues while Program revenues accounted for the balance of \$3,388,405 or 9.6 percent.
- Total assets of governmental activities increased by \$1,252,899 which is primarily a result of an increase in cash and cash equivalents and taxes receivable.
- Program expenses totaled \$32,362,646. Instructional expenses made up \$17,775,686 or 54.9 percent of this total while support services accounted for \$11,087,010 or 34.3 percent.

### **Using this Annual Financial Report**

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

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

### **Reporting the School District as a Whole**

#### *Statement of Net Assets and the Statement of Activities*

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

**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

### **Reporting the School District's Most Significant Funds**

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

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

### **The School District as a Whole**

You may recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

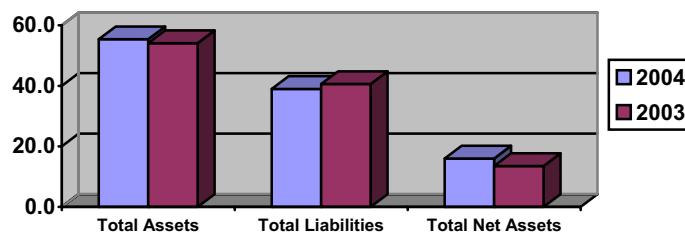
**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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**Table 1**  
**Net Assets**  
**Governmental Activities**

	2004	2003
<b>Assets</b>		
Current and Other Assets	\$32,569,330	\$31,405,846
Capital Assets, Net	<u>22,845,586</u>	<u>22,756,171</u>
<i>Total Assets</i>	<u>55,414,916</u>	<u>54,162,017</u>
<b>Liabilities</b>		
Current and Other Liabilities	20,498,483	21,029,043
Long-Term Liabilities:		
Due Within One Year	3,373,592	3,007,542
Due in More than One Year	<u>15,175,688</u>	<u>16,560,515</u>
<i>Total Liabilities</i>	<u>39,047,763</u>	<u>40,597,100</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	9,568,963	7,760,887
Restricted:		
Capital Projects	420,201	318,289
Debt Service	1,956,899	2,025,522
Food Services	77,390	60,106
School Supplies	59,229	69,690
Extracurricular Activities	145,151	169,258
State Grants	20,523	41,773
Federal Grants	7,324	11,507
Donations	43,330	47,299
Set Asides	129,878	106,632
Unrestricted (Deficit)	<u>3,938,265</u>	<u>2,953,954</u>
<i>Total Net Assets</i>	<u>\$16,367,153</u>	<u>\$13,564,917</u>

**Governmental Activities**  
**(in Millions)**



Total assets increased by \$1,252,899. The majority of this increase can be attributed directly to an increase in pooled cash and cash equivalents and taxes receivable.

**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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Table 2 shows the change in net assets for fiscal year 2004. A comparative analysis of government-wide data is presented.

**Table 2**  
 Governmental Activities

	2004	2003
<b>Revenues</b>		
<i>Program Revenues</i>		
Charges for Services and Sales	\$1,573,042	\$1,524,056
Operating Grants, Contributions and Interest	1,789,617	920,619
Capital Grants and Contributions	<u>25,746</u>	<u>249,298</u>
<i>Total Program Revenues</i>	<u>3,388,405</u>	<u>2,693,973</u>
General Revenue:		
Property Taxes	19,638,147	16,066,303
Grants and Entitlements	11,675,875	11,332,089
Investment Earnings	105,480	196,142
Other	<u>356,975</u>	<u>332,145</u>
<i>Total General Revenues</i>	<u>31,776,477</u>	<u>27,926,679</u>
<b>Total Revenues</b>	<u>35,164,882</u>	<u>30,620,652</u>
<b>Program Expenses</b>		
Instruction	17,775,686	16,520,553
Support Services:		
Pupil and Instructional Staff	2,789,067	2,384,059
Board of Education, Administration, and Fiscal	3,354,050	3,175,353
Operation and Maintenance of Plant	3,319,500	3,781,878
Pupil Transportation	1,473,042	1,597,539
Central	<u>151,351</u>	<u>166,328</u>
Operation of Non Instructional Services:		
Food Service Operations	952,280	893,196
Other Non Instructional Services	174,745	209,235
Extracurricular Activities	1,580,436	1,393,724
Interest and Fiscal Charges	<u>792,489</u>	<u>983,469</u>
<b>Total Program Expenses</b>	<u>32,362,646</u>	<u>31,105,334</u>
Increase in Net Assets	2,802,236	(484,682)
<i>Net Assets Beginning of Year</i>	<u>13,564,917</u>	<u>14,049,599</u>
<i>Net Assets End of Year</i>	<u>\$16,367,153</u>	<u>\$13,564,917</u>

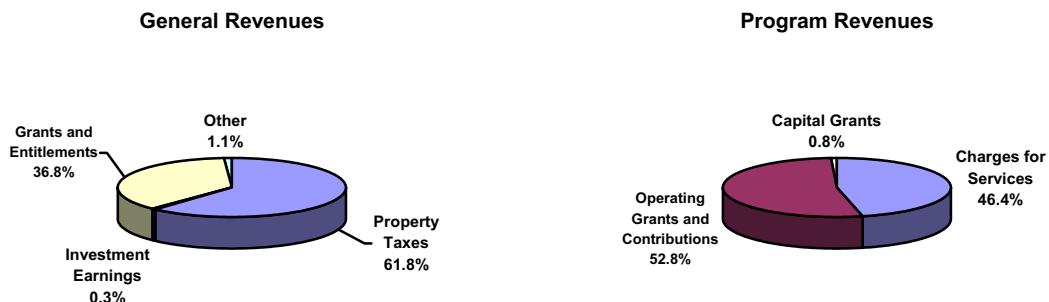
**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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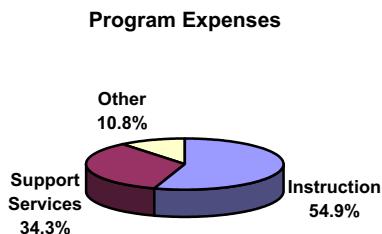
***Governmental Activities***

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$31,776,477 or 90.4 percent of the total revenue. The two significant portions of the general revenues are the local property taxes and foundation. Property taxes made up 55.8 percent of revenues for governmental activities for Olmsted Falls City School District in fiscal year 2004. The remaining amount of revenue received was in the form of program revenues, which made up of \$3,388,405 or only 9.6 percent of total revenue.

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



54.9 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, instructional staff and business operations encompass an additional 34.3 percent. The remaining 10.8 percent of program expenses is used for other obligations of the School District such as non-instructional services, food service program and extracurricular activities.



The increase in program expenses is due to increases in staff salaries, benefit costs and severance payments, as well as increased cost for instructional materials.

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

**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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**Table 3**  
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$17,775,686	(\$16,676,790)
Support Services:		
Pupil and Instructional Staff	2,789,067	(2,373,847)
Board of Education, Administration, and Fiscal	3,354,050	(3,294,662)
Operation and Maintenance of Plant	3,319,500	(3,312,225)
Pupil Transportation	1,473,042	(1,246,033)
Central	151,351	(139,351)
Operation of Non-Instructional Services:		
Food Service Operations	952,280	(17,008)
Other Non-Instructional Services	174,745	(22,807)
Extracurricular Activities	1,580,436	(1,099,029)
Interest and Fiscal Charges	<u>792,489</u>	<u>(792,489)</u>
<i>Total</i>	<u><u>\$32,362,646</u></u>	<u><u>(\$28,974,241)</u></u>

The dependence upon general revenues for governmental activities is apparent. Over 60.7 percent of total expenses are supported through taxes. Grant and entitlements not restricted to specific programs support 36.1 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 10.5 percent of all governmental expenses. The community, as a whole, is the primary support for Olmsted Falls City School District students.

### **The School District's Funds**

Information about the School District's major funds starts on Page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$35,299,903 and expenditures of \$33,673,691.

### **General Fund Budgeting Highlights**

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

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

For the general fund, final budget basis revenue estimate was \$28,813,331; this was below the original budget estimates of \$29,441,729. The main difference between the original and final estimates was due to a decrease in projected tax revenues and school foundation revenues. The budget basis original and final expenditure estimate totaled \$30,664,927.

**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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The School District's unencumbered ending cash balance totaled \$6,505,557.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2004, the School District had \$22,845,586 invested in land, buildings and improvements, furniture and equipment, vehicles and textbooks. Table 4 shows fiscal 2004 values compared to 2003. More detailed information is presented in Note 9 of the notes to the basic financial statements.

**Table 4**  
Capital Assets at June 30  
Governmental Activities

	2004	2003
Land	\$2,979,985	\$2,979,985
Buildings and Improvements	13,465,729	13,980,413
Furniture and Equipment	3,664,406	3,099,223
Vehicles	2,432,824	2,231,767
Textbooks	302,642	464,783
Totals	<u><u>\$22,845,586</u></u>	<u><u>\$22,756,171</u></u>

All capital assets, except land, are reported net of depreciation. The increase in capital assets is due to acquisitions. These acquisitions were distributed among furniture and equipment and vehicles. The School District continued its ongoing commitment to maintaining and improving its capital assets.

**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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## **Debt**

At June 30, 2004, the School District had \$14,240,639 in bonds and notes outstanding. Table 5 below summarizes the School District's bonds and notes outstanding. More detailed information is presented in Notes 15 and 16 of the notes to the basic financial statements.

**Table 5**  
Outstanding Debt at Year End  
Governmental Activities

	<u>2004</u>	<u>2003</u>
Manuscript Note	\$270,000	\$270,000
1995 Classroom Facilities Improvement Bonds	295,000	6,285,000
1995 Energy Conservation Improvement Bonds	250,000	375,000
1997 School Improvement Refunding Bonds	6,591,106	6,830,932
1998 Various Purpose Improvement Bonds	105,000	135,000
2002 Energy Conservation Improvement Bonds	423,518	484,020
2003 Classroom Facilities Refunding		
Bonds	5,767,247	0
Premium	585,119	0
Deferred Amount on Refunding	(466,801)	0
Long Term Tax Anticipation Notes	<u>420,000</u>	<u>820,000</u>
Totals	<u><u>\$14,240,189</u></u>	<u><u>\$15,199,952</u></u>

At June 30, 2004, the School District's overall legal debt margin was \$43,626,213 with an unvoted debt margin of \$416,882. The debt is well within permissible limits. The School District maintains an A-1 bond rating.

## **Current Financial Related Activities**

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

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

**Olmsted Falls City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court's concerns.

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

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dale Weber, Treasurer at Olmsted Falls City School District, 26937 Bagley Rd., Olmsted Falls, Ohio 44138; or by e-mail at [ofall\\_dw@leeca.org](mailto:ofall_dw@leeca.org).

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**Olmsted Falls City School District**

*Statement of Net Assets*

June 30, 2004

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$10,750,634
Investments	270,000
Accrued Interest Receivable	2,164
Accounts Receivable	26,191
Intergovernmental Receivable	39,314
Inventory Held for Resale	20,525
Materials and Supplies Inventory	162,807
Property Taxes Receivable	19,549,397
Settlement Receivable	1,630,000
Deferred Charges	118,298
Nondepreciable Capital Assets	2,979,985
Depreciable Capital Assets, Net	<u>19,865,601</u>
<i>Total Assets</i>	<u>55,414,916</u>
<b>Liabilities</b>	
Accounts Payable	236,120
Accrued Wages and Benefits	3,104,077
Intergovernmental Payable	1,066,994
Accrued Interest Payable	17,500
Matured Compensated Absences Payable	528,564
Deferred Revenue	15,275,228
Notes Payable	270,000
Long-Term Liabilities:	
Due Within One Year	3,373,592
Due In More Than One Year	<u>15,175,688</u>
<i>Total Liabilities</i>	<u>39,047,763</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	9,568,963
Restricted for:	
Capital Projects	420,201
Debt Service	1,956,899
Food Service	77,390
School Supplies	59,229
Extracurricular Activities	145,151
State Grants	20,523
Federal Grants	7,324
Donations	43,330
Set Asides	129,878
Unrestricted	<u>3,938,265</u>
<i>Total Net Assets</i>	<u>\$16,367,153</u>

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2004*

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	
<b>Governmental Activities</b>					
Instruction:					
Regular	\$14,724,024	\$231,202	\$45,835	\$0	(\$14,446,987)
Special	2,643,194	0	721,954	0	(1,921,240)
Vocational	389,229	0	99,905	0	(289,324)
Adult/Continuing	19,239	0	0	0	(19,239)
Support Services:					
Pupil	1,443,083	0	275,075	0	(1,168,008)
Instructional Staff	1,345,984	0	140,145	0	(1,205,839)
Board of Education	217,094	0	0	0	(217,094)
Administration	2,426,845	0	59,388	0	(2,367,457)
Fiscal	710,111	0	0	0	(710,111)
Operation and Maintenance of Plant	3,319,500	7,275	0	0	(3,312,225)
Pupil Transportation	1,473,042	128,764	72,499	25,746	(1,246,033)
Central	151,351	0	12,000	0	(139,351)
Operation of Non-Instructional Services:					
Food Service Operations	952,280	778,549	156,723	0	(17,008)
Other Non-Instructional Services	174,745	0	151,938	0	(22,807)
Extracurricular Activities	1,580,436	427,252	54,155	0	(1,099,029)
Interest and Fiscal Charges	792,489	0	0	0	(792,489)
<i>Totals</i>	<i>\$32,362,646</i>	<i>\$1,573,042</i>	<i>\$1,789,617</i>	<i>\$25,746</i>	<i>(28,974,241)</i>

**General Revenues**

Property Taxes Levied for:

General Purposes	17,992,159
Debt Service	1,455,467
Capital Projects	190,521
Grants and Entitlements not Restricted to Specific Programs	11,675,875
Investment Earnings	105,480
Miscellaneous	356,975

*Total General Revenues*

*31,776,477*

Change in Net Assets

2,802,236

*Net Assets Beginning of Year*

*13,564,917*

*Net Assets End of Year*

*\$16,367,153*

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**

*Balance Sheet  
Governmental Funds  
June 30, 2004*

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	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$7,412,422	\$1,961,660	\$930,718	\$10,304,800
Investments	0	270,000	0	270,000
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	129,878	0	0	129,878
Accrued Interest Receivable	2,164	0	0	2,164
Accounts Receivable	21,144	0	4,263	25,407
Intergovernmental Receivable	5,420	0	33,894	39,314
Inventory Held for Resale	0	0	20,525	20,525
Materials and Supplies Inventory	162,593	0	214	162,807
Property Taxes Receivable	17,912,992	1,433,494	202,911	19,549,397
Settlement Receivable	1,630,000	0	0	1,630,000
<i>Total Assets</i>	<u>\$27,276,613</u>	<u>\$3,665,154</u>	<u>\$1,192,525</u>	<u>\$32,134,292</u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$202,100	\$0	\$33,520	\$235,620
Accrued Wages and Benefits	2,960,159	0	143,918	3,104,077
Intergovernmental Payable	555,218	0	12,673	567,891
Accrued Interest Payable	450	0	0	450
Matured Compensated Absences Payable	528,564	0	0	528,564
Deferred Revenue	16,870,554	1,212,161	184,333	18,267,048
Notes Payable	270,000	0	0	270,000
<i>Total Liabilities</i>	<u>21,387,045</u>	<u>1,212,161</u>	<u>374,444</u>	<u>22,973,650</u>
 <b>Fund Balances</b>				
Reserved for Encumbrances	861,409	0	65,543	926,952
Reserved for Property Taxes	2,672,438	221,333	30,411	2,924,182
Reserved for Budget Stabilization	106,632	0	0	106,632
Reserved for Bus Purchases	23,246	0	0	23,246
Unreserved, Undesignated				
Reported in:				
General Fund	2,225,843	0	0	2,225,843
Special Revenue Funds	0	0	346,913	346,913
Debt Service Fund	0	2,231,660	0	2,231,660
Capital Projects Funds	0	0	375,214	375,214
<i>Total Fund Balances</i>	<u>5,889,568</u>	<u>2,452,993</u>	<u>818,081</u>	<u>9,160,642</u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$27,276,613</u></u>	<u><u>\$3,665,154</u></u>	<u><u>\$1,192,525</u></u>	<u><u>\$32,134,292</u></u>

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

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<b>Total Governmental Fund Balances</b>	\$9,160,642
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*Amounts reported for governmental activities in the statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	22,845,586
--	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Delinquent Property Taxes	1,349,987
Grants	11,833
Settlement	<u>1,630,000</u>

Total	2,991,820
-------	-----------

Unamortized bond issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.

	118,298
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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.

	316,240
--	---------

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds

	(499,103)
--	-----------

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

	(17,050)
--	----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(7,871,717)
Bond Premium	(585,119)
Capital Appreciation Bonds	(5,093,353)
Notes Payable	(420,000)
Capital Lease Obligations Payable	(1,804,454)
Compensated Absences	<u>(2,774,637)</u>

Total	<u>(18,549,280)</u>
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<i>Net Assets of Governmental Activities</i>	<u>\$16,367,153</u>
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**Olmsted Falls City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$17,705,808	\$1,420,579	\$187,573	\$19,313,960
Intergovernmental	12,310,332	170,585	929,231	13,410,148
Interest	105,480	0	675	106,155
Tuition and Fees	116,283	0	114,919	231,202
Rentals	7,275	0	654	7,929
Extracurricular Activities	0	0	426,598	426,598
Contributions and Donations	0	0	79,623	79,623
Charges for Services	128,764	0	778,549	907,313
Settlement Payments	460,000	0	0	460,000
Miscellaneous	293,889	0	63,086	356,975
<i>Total Revenues</i>	<i>31,127,831</i>	<i>1,591,164</i>	<i>2,580,908</i>	<i>35,299,903</i>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	13,789,846	0	238,857	14,028,703
Special	2,483,508	0	96,786	2,580,294
Vocational	375,044	0	0	375,044
Adult/Continuing	23,326	0	0	23,326
Support Services:				
Pupil	1,211,342	0	277,614	1,488,956
Instructional Staff	1,168,312	0	145,660	1,313,972
Board of Education	217,042	0	0	217,042
Administration	2,310,699	0	62,431	2,373,130
Fiscal	689,978	508	68	690,554
Operation and Maintenance of Plant	3,301,552	0	0	3,301,552
Pupil Transportation	1,337,603	0	0	1,337,603
Central	132,364	0	12,000	144,364
Operation of Non-Instructional Services:				
Food Service Operations	0	0	888,952	888,952
Other Non-Instructional Services	20,685	0	153,192	173,877
Extracurricular Activities	1,052,479	0	542,993	1,595,472
Capital Outlay	497,790	0	92,618	590,408
Debt Service:				
Principal Retirement	1,155,081	810,000	0	1,965,081
Interest and Fiscal Charges	173,235	281,998	0	455,233
Bond Issuance Costs	0	130,128	0	130,128
<i>Total Expenditures</i>	<i>29,939,886</i>	<i>1,222,634</i>	<i>2,511,171</i>	<i>33,673,691</i>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>1,187,945</i>	<i>368,530</i>	<i>69,737</i>	<i>1,626,212</i>
<b>Other Financing Sources (Uses)</b>				
Inception of Capital Leases	431,491	0	0	431,491
General Obligation Refunding Bonds Issued	0	5,709,978	0	5,709,978
Refunding Bonds Premium	0	643,631	0	643,631
Payment to Refunded Bond Escrow Agent	0	(6,223,481)	0	(6,223,481)
<i>Total Other Financing Sources (Uses)</i>	<i>431,491</i>	<i>130,128</i>	<i>0</i>	<i>561,619</i>
<i>Net Change in Fund Balances</i>	<i>1,619,436</i>	<i>498,658</i>	<i>69,737</i>	<i>2,187,831</i>
<i>Fund Balances Beginning of Year</i>	<i>4,270,132</i>	<i>1,954,335</i>	<i>748,344</i>	<i>6,972,811</i>
<i>Fund Balances End of Year</i>	<i>\$5,889,568</i>	<i>\$2,452,993</i>	<i>\$818,081</i>	<i>\$9,160,642</i>

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$2,187,831
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***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 are allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	1,438,855
Current Year Depreciation	(1,342,692)
Total	96,163

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

(6,748)

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

Delinquent Property Taxes	324,187
Grants	792
Settlement	(460,000)
Total	(135,021)

Other financing sources in the governmental funds increased long-term liabilities in the statement of net assets. Governmental funds report the effect of premiums when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities.

General Obligation Bonds	(5,260,000)
Capital Appreciation Bonds	(449,978)
Premium on Bonds	(643,631)
Inception of Capital Leases	(431,491)
Total	(6,785,100)

Issuance costs are reported as an expenditure when paid in the governmental funds, but is deferred and amortized on the statement of activities. This is the unamortized issuance costs on bonds.

130,128

Repayment of bond and capital lease principal and payment to refunded bond escrow agent is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond and Capital Lease Principal	7,675,081
Unamortized Loss on Refunding	513,481
Total	8,188,562

In the statement of activities, interest is accrued on outstanding bonds, bond accretion, bond premium, bond issuance costs and the deferred amount on refunding are amortized over the term of the bonds, whereas in governmental funds and expenditure is reported when the bonds are issued.

Accrued Interest	10,185
Annual Accretion	(347,443)
Amortization of Issuance Costs	(11,830)
Amortization of Loss on Refunding	(46,680)
Amortization of Premium on Bonds	58,512
Total	(337,256)

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

Compensated Absences	(49,074)
Pension Obligation	(201,473)
Total	(250,547)

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

(285,776)

<i>Change in Net Assets of Governmental Activities</i>	<i>\$2,802,236</i>
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**Olmsted Falls City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Property Taxes	\$16,136,330	\$15,791,920	\$16,354,627	\$562,707
Intergovernmental	12,146,018	11,886,774	12,310,332	423,558
Interest	157,355	153,997	159,484	5,487
Tuition and Fees	114,731	112,282	116,283	4,001
Rentals	7,178	7,025	7,275	250
Charges for Services	127,045	124,334	128,764	4,430
Settlement Payments	460,000	460,000	460,000	0
Miscellaneous	293,072	276,999	303,573	26,574
<i>Total Revenues</i>	<i>29,441,729</i>	<i>28,813,331</i>	<i>29,840,338</i>	<i>1,027,007</i>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	14,148,882	14,148,882	13,212,442	936,440
Special	2,589,086	2,589,086	2,852,397	(263,311)
Vocational	389,613	389,613	362,608	27,005
Adult/Continuing	25,244	25,244	23,460	1,784
Other	123,704	123,704	152,961	(29,257)
Support Services:				
Pupils	1,250,262	1,250,262	1,191,056	59,206
Instructional Staff	1,206,903	1,206,903	1,134,840	72,063
Board of Education	230,102	230,102	254,610	(24,508)
Administration	2,414,436	2,414,436	2,262,630	151,806
Fiscal	738,025	738,025	690,440	47,585
Operation and Maintenance of Plant	3,471,296	3,471,296	3,388,822	82,474
Pupil Transportation	1,513,901	1,513,901	1,439,236	74,665
Central	153,479	153,479	184,026	(30,547)
Operation of Non-Instructional Services:				
Other Non-Instructional Services	17,790	17,790	16,878	912
Extracurricular Activities	1,098,951	1,098,951	1,028,556	70,395
Capital Outlay	535,064	535,064	672,027	(136,963)
Debt Service:				
Principal Retirement	662,310	662,310	885,502	(223,192)
Interest and Fiscal Charges	95,879	95,879	89,103	6,776
<i>Total Expenditures</i>	<i>30,664,927</i>	<i>30,664,927</i>	<i>29,841,594</i>	<i>823,333</i>
<i>Excess of Revenues Under Expenditures</i>	<i>(1,223,198)</i>	<i>(1,851,596)</i>	<i>(1,256)</i>	<i>1,850,340</i>
<b>Other Financing Sources</b>				
Notes Issued	0	0	270,000	270,000
<i>Net Change in Fund Balance</i>	<i>(1,223,198)</i>	<i>(1,851,596)</i>	<i>268,744</i>	<i>2,120,340</i>
<i>Fund Balance Beginning of Year</i>	<i>5,161,050</i>	<i>5,161,050</i>	<i>5,161,050</i>	<i>0</i>
Prior Year Encumbrances Appropriated	1,075,763	1,075,763	1,075,763	0
<i>Fund Balance End of Year</i>	<i>\$5,013,615</i>	<i>\$4,385,217</i>	<i>\$6,505,557</i>	<i>\$2,120,340</i>

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2004*

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	Self Insurance
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$315,956
Accounts Receivable	<u>784</u>
Total Assets	316,740
<b>Liabilities</b>	
Accounts Payable	<u>500</u>
<b>Net Assets</b>	
Unrestricted	<u>\$316,240</u>

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**  
*Statement of Revenues,  
 Expenses and Changes in Fund Net Assets  
 Internal Service Fund  
 For the Fiscal Year Ended June 30, 2004*

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	Self Insurance
<b>Operating Revenues</b>	
Charges for Services	\$2,327,742
Miscellaneous	<u>784</u>
<i>Total Operating Revenues</i>	<u>2,328,526</u>
<b>Operating Expenses</b>	
Purchased Services	193,927
Claims	<u>2,420,375</u>
<i>Total Operating Expenses</i>	<u>2,614,302</u>
<i>Changes in Net Assets</i>	(285,776)
<i>Net Assets Beginning of Year</i>	<u>602,016</u>
<i>Net Assets End of Year</i>	<u>\$316,240</u>

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2004*

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Self  
Insurance

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from Transactions with Other Funds	\$2,328,169
Cash Payments for Goods and Services	(193,644)
Cash Payments for Claims	<u>(2,614,019)</u>

*Net Decrease in Cash and Cash Equivalents* (479,494)

*Cash and Cash Equivalents Beginning of Year* 795,450

*Cash and Cash Equivalents End of Year* \$315,956

**Reconciliation of Operating Loss to Net Cash**

**Used by Operating Activities**

Operating Loss (\$285,776)

Adjustments:

Increase in Accounts Receivable (357)

Increase (Decrease) in Liabilities:

    Accounts Payable 283

    Claims Payable (193,644)

*Net Cash Used by Operating Activities* (\$479,494)

See accompanying notes to the basic financial statements

**Olmsted Falls City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2004*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$76,451</u>
<b>Liabilities</b>	
Accounts Payable	\$319
Due to Students	<u>76,132</u>
<i>Total Liabilities</i>	<u>\$76,451</u>

See accompanying notes to the basic financial statements

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**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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## **Note 1 - Description of the School District and Reporting Entity**

The Olmsted Falls City School District (School District) operates under a locally elected five member Board and provides educational services as mandated by State and federal agencies. The School District includes the City of Olmsted Falls, a small portion of the City of Berea, Olmsted Township and a small portion of Columbia Township. All of the communities served are located in Cuyahoga County with the exception of Columbia Township, which is located in Lorain County. It is staffed by 148 non-certified personnel, 227 certified teaching personnel and 16 administrative employees to provide services to 3,326 students and other community members. The School District operates one primary school (Pre K-3), one intermediate school (4-5), one middle school (6-8), and one high school (9-12).

### *Reporting Entity*

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District does not have any component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Lake Erie Educational Computer Association (LEECA), the Ohio Schools Council, the Polaris Career Center, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Note 19 and Note 20 of the basic financial statements.

## **Note 2 - Summary of Significant Accounting Policies**

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

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**A. Basis of Presentation**

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

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

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

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

**B. Fund Accounting**

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

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

**General Fund** The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

## **Olmsted Falls City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2004*

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

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

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

**Internal Service Fund** This fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis. The School District utilizes an internal service fund to account for the operation of the School District's self insurance program for dental and vision claims and health insurance premiums.

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

### **C. Measurement Focus**

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund activity.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**D. Basis of Accounting**

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

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

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

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

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

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

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

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

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**E. Cash and Cash Equivalents**

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

During fiscal year 2004, investments were limited to manuscript bonds and notes, STAROhio, federal home loan mortgage corporation notes, federal home loan bank bonds, and federal national mortgage association notes. Investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$105,480 which includes \$31,531 assigned from other School District funds.

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

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent amounts required by State statute to be set-aside to create a reserve for budget stabilization and bus purchases. See Note 17 for additional information regarding set-asides.

**G. Inventory**

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

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

**H. Capital Assets**

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

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars and an estimated life of five years. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
Buildings and Improvements	25-30 years
Furniture and Equipment	5-15 years
Vehicles	5-10 years
Textbooks	5-10 years

**I. Bond Issuance Costs**

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred.

**J. Bond Premium**

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted when incurred.

**K. Gain/Loss on Refunding**

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, which ever is shorter, using the effective interest method.

**L. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

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

***M. Accrued Liabilities and Long-Term Obligations***

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

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

***N. Net Assets***

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

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

***O. Fund Balance Reserves***

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

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

***P. Operating Revenues and Expenses***

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

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

***R. 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.

***S. Budgetary Data***

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

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

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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### Note 3 - Fund Deficit

At June 30, 2004, the following funds had a deficit fund balance:

	<u>Deficit</u>
<b>Special Revenue Funds</b>	
Student Reading Intervention	\$73
Title VI-B	30,756
Handicapped Preschool	52

The deficit is due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

### Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

Net Change in Fund Balance	
GAAP Basis	\$1,619,436
Net Adjustment for Revenue Accruals	(1,768,330)
Note Proceeds	270,000
Beginning Fair Value Adjustment for Investments	12,237
Ending Fair Value Adjustment for Investments	37,109
Net Adjustment for Expenditure Accruals	1,442,144
Note Retirement	(270,000)
Adjustment for Encumbrances	<u>(1,073,852)</u>
Budget Basis	<u><u>\$268,744</u></u>

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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### **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 pass book accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

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

**Cash on Hand** At fiscal year-end, the School District had \$4,850 in unreported cash which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents."

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

**Deposits** At fiscal year-end, the carrying amount of the School District's deposits was \$2,976,794 and the bank balance was \$3,330,572. Of the bank balance:

1. \$1,188,000 of the bank balance was covered by depository insurance; and
2. \$2,142,572 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**Investments** Investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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	Category 1	Category 3	Fair Value
Federal Home Loan Mortgage			
Corporation Notes	\$0	\$2,484,600	\$2,484,600
Federal Home Loan Bank Bonds	0	1,492,170	1,492,170
Federal National Mortgage			
Association Notes	0	1,227,970	1,227,970
Manuscript Notes	<u>270,000</u>	<u>0</u>	270,000
STAROhio			<u>2,640,701</u>
Total	<u>\$270,000</u>	<u>\$5,204,740</u>	<u>\$8,115,441</u>

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$10,827,085	\$270,000
Cash on Hand	(4,850)	0
Investments which are part of the cash management pool:		
Federal Home Loan Mortgage Corporation Notes	(2,484,600)	2,484,600
Federal Home Loan Bank Bonds	(1,492,170)	1,492,170
Federal National Mortgage Association Notes	(1,227,970)	1,227,970
STAROhio	<u>(2,640,701)</u>	<u>2,640,701</u>
GASB Statement No. 3	<u>\$2,976,794</u>	<u>\$8,115,441</u>

#### **Note 6 - Property Taxes**

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

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 thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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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 thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 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 twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Cuyahoga and Lorain Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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 delayed settlement of personal property taxes and 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 \$2,491,473 in the general fund, \$213,749 in the bond retirement debt service fund, and \$29,358 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2003, was \$1,321,257 in the general fund, \$99,744 in the bond retirement debt service fund, and \$16,292 in the classroom facilities capital projects fund. The difference was in the timing and collection by the County Treasurer.

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.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$356,374,470	93.06 %	\$391,086,410	93.81 %
Public Utility Personal	12,615,960	3.30	12,154,850	2.92
Tangible Personal Property	13,957,425	3.64	13,640,459	3.27
Total	<u>\$382,947,855</u>	<u>100.00 %</u>	<u>\$416,881,719</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation		\$90.00		\$90.00

### Note 7 - Receivables

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

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Food Service	\$22,061
Title VI-B	11,833
General	<u>5,420</u>
Total	<u><u>\$39,314</u></u>

### Note 8 - Settlement Receivable

The Olmsted Falls City School District in conjunction with Olmsted Township challenged a real property tax exemption claimed and received by The Renaissance Retirement Center. The exemption was granted for the tax years 1991 to 2006. This exemption was based on the facility providing medical services as a hospital. The challenge was appealed until reaching the Ohio Supreme Court. The Ohio Supreme Court ruled that some portion of the property was and is taxable. The taxable portion was then disputed. On May 13, 1998 a settlement was reached between The Renaissance Retirement Center, Olmsted Township, and Olmsted Falls City School District. The settlement provides that The Renaissance Retirement Center shall make payments directly to the Olmsted Falls City School District. The payments are secured by a mortgage on several properties owned by The Renaissance Retirement Center. In the event of a default on the payments by The Renaissance Retirement Center, the mortgage provided by the settlement allows the Olmsted Falls City School District and Olmsted Township to foreclose on the properties. The payments are to be made semi-annually beginning in January 1999 and continuing through July 2007. The future payments of \$1,630,000 are reflected on the fund financial statements as settlement receivable and deferred revenue in the general fund. On a full accrual basis, the amount has been recorded as a receivable and revenue.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,979,985	\$0	\$0	\$2,979,985
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	22,404,097	0	0	22,404,097
Furniture and Equipment	7,268,621	1,144,320	(270,691)	8,142,250
Vehicles	2,338,578	294,535	0	2,633,113
Textbooks	3,026,406	0	0	3,026,406
<i>Total Capital Assets, being depreciated</i>	<i>35,037,702</i>	<i>1,438,855</i>	<i>(270,691)</i>	<i>36,205,866</i>
Less Accumulated Depreciation:				
Buildings and Improvements	(8,423,684)	(514,684)	0	(8,938,368)
Furniture and Equipment	(4,169,398)	(572,389)	263,943	(4,477,844)
Vehicles	(106,811)	(93,478)	0	(200,289)
Textbooks	(2,561,623)	(162,141)	0	(2,723,764)
<i>Total Accumulated Depreciation</i>	<i>(15,261,516)</i>	<i>(1,342,692)</i> *	<i>263,943</i>	<i>(16,340,265)</i>
<i>Total Capital Assets, being depreciated, net</i>	<i>19,776,186</i>	<i>96,163</i>	<i>(6,748)</i>	<i>19,865,601</i>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$22,756,171</b>	<b>\$96,163</b>	<b>(\$6,748)</b>	<b>\$22,845,586</b>

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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\* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$1,174,890
Special	874
Vocational	717
Support Services:	
Pupils	614
Instructional Staff	785
Administration	4,071
Fiscal	579
Operation and Maintenance of Plant	45,010
Pupil Transportation	71,343
Central	6,987
Operation of Non-Instructional Services:	
Food Service Operations	33,333
Other Non-Instructional Services	254
Extracurricular Activities	<u>3,235</u>
Total Depreciation Expense	<u>\$1,342,692</u>

### Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for property insurance of \$68,263,322, with a deductible of \$1,000 per incident. Vehicles are insured by SORSA in the amount of \$4,000,000, with a \$250 deductible. Professional liability is protected by the SORSA for all Board Members, administrators, and employees with limits of \$2,000,000 per occurrence and \$5,000,000 aggregate limit.

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

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

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Previously, the School District provided medical and prescription drugs on a self-insured basis. The benefits are now provided on a fully insured basis. The School District has elected to continue to provide vision and dental benefits on a self-insured basis. The claims liability of \$0, reported in the self-insurance fund at June 30, 2004, is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

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

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$340,206	\$1,878,303	\$2,024,865	\$193,644
2004	193,644	2,420,375	2,614,019	0

## **Note 11 - Defined Benefit Pension Plans**

### ***A. School Employees Retirement System***

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

Plan members are required to contribute 10 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, 9.09 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 pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$453,720, \$374,766, and \$231,466 respectively; 61.77 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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***B. State Teachers Retirement System***

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

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

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

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, 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,758,569, \$1,616,788, and \$1,123,871, respectively; 81.15 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 \$7,048 made by the School District and \$21,935 made by the plan members.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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### **Note 12 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$135,275 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 twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$395,222.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 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.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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## Note 13 - Other Employee Benefits

### A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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

### B. Life Insurance

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

## Note 14 - Leases

### A. Capital Leases

During fiscal year 2004, the School District entered into capitalized leases for three buses, two vans, two modular classrooms and four new copiers. The School District's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases." Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized and depreciated as follows:

<b>Governmental Activities</b>	
<b>Capital Assets, not being depreciated:</b>	
Land	<u>\$1,750,000</u>
<b>Capital Assets, being depreciated:</b>	
Furniture and Equipment	1,042,767
Vehicles	508,342
<i>Total Capital Assets, being depreciated</i>	<u>1,551,109</u>
<b>Less Accumulated Depreciation:</b>	
Furniture and Equipment	(213,115)
Vehicles	(206,715)
<i>Total Accumulated Depreciation</i>	<u>(419,830)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>1,131,279</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$2,881,279</u>

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	Governmental Activities
2005	\$690,527
2006	739,475
2007	293,320
2008	145,874
2009	<u>68,829</u>
Total	1,938,025
Less: Amount Representing Interest	<u>(133,571)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$1,804,454</u></u>

**B. Operating Lease**

The School District has one noncancelable operating lease that ended in fiscal year 2004.

**Note 15 - Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>General Obligation Bonds:</b>			
Classroom Facilities Improvement - 1995	5.10-5.85%	\$7,625,000	December 15, 2017
Energy Conservation Improvement - 1995	4.75-5.3%	1,230,000	December 15, 2005
School Improvement Refunding - 1997	3.85-6.75%	8,828,772	December 15, 2011
Various Purpose Improvement - 1998	4.60%	270,000	December 15, 2006
Energy Conservation Improvement - 2002	6.12%	605,025	December 1, 2010
Classroom Facilities Refunding - 2003	2.0-14.065%	5,709,978	December 15, 2017
<b>General Obligation Notes:</b>			
Current Operations Tax Anticipation Notes - 1999	5.50%	1,900,000	December 1, 2004

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

	Principal Outstanding 6/30/03	Additions	Principal (Reductions)	Outstanding 6/30/04	Amount Due in One Year
<b>Governmental Activities:</b>					
General Obligations Bonds:					
1995 Classroom Facilities Improvements	\$6,285,000	\$0	(\$5,990,000)	\$295,000	\$295,000
1995 Energy Conservation Improvement	375,000	0	(125,000)	250,000	125,000
1997 School Improvement Refunding					
Serial Bonds	2,535,000	0	(530,000)	2,005,000	610,000
Capital Appreciation Bonds	2,998,772	0	0	2,998,772	0
Accretion on Capital Appreciation Bonds	1,297,160	290,174	0	1,587,334	0
1998 Various Purpose Improvement	135,000	0	(30,000)	105,000	35,000
2002 Energy Conservation Improvement	484,020	0	(60,502)	423,518	60,502
2003 Classroom Facilities Refunding					
Serial Bonds	0	5,260,000	0	5,260,000	125,000
Capital Appreciation Bonds	0	449,978	0	449,978	0
Accretion on Capital Appreciation Bonds	0	57,269	0	57,269	0
Premium	0	643,631	(58,512)	585,119	0
Deferred Loss on Refunding	0	(513,481)	46,680	(466,801)	0
<i>Total General Obligation Bonds</i>	<i>14,109,952</i>	<i>6,187,571</i>	<i>(6,747,334)</i>	<i>13,550,189</i>	<i>1,250,502</i>
Current Operations Tax Anticipation Notes	820,000	0	(400,000)	420,000	420,000
Capital Leases	1,912,542	431,491	(539,579)	1,804,454	621,120
Compensated Absences	2,725,563	223,569	(174,495)	2,774,637	1,081,970
<i>Total Governmental Activities</i>	<i>\$19,568,057</i>	<i>\$6,842,631</i>	<i>(\$7,861,408)</i>	<i>\$18,549,280</i>	<i>\$3,373,592</i>

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

The 1997 general obligation bonds include capital appreciation bonds. This year the addition on these bonds was \$290,174, which represents the accretion of discounted interest remaining on the bonds. The final maturity amount of these bonds is \$6,575,000.

On August 13, 2003, the School District issued \$5,709,978 in general obligation refunding bonds, which included \$5,260,000 in serial bonds and \$449,978 in capital appreciation bonds at interest rates varying from 2.0 percent to 14.065 percent. Proceeds were used to refund \$5,710,000 of the outstanding 1995 classroom facilities improvement bonds as follows:

	<u>1995 Classroom Facilities Improvements</u>
Outstanding at 6/30/03	\$6,285,000
Amount Refunded	(5,710,000)
Non-Refunded Portion	575,000
Principal Payment on Non-Refunded Portion	(280,000)
Outstanding at 6/30/04	\$295,000

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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The bonds were sold at a premium of \$643,631. Proceeds of \$6,223,481 (after the underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded portion of the 1995 classroom facilities improvement bonds. As a result, \$5,710,000 of these bonds were considered defeased and the liability for the refunded portion of these bonds has been removed from the basic financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$513,481. This difference, reported as a deduction from bonds payable, is being charged to interest through fiscal year 2014. The School District decreased its total debt service payments by \$682,285 as a result of the current refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$578,748.

The serial bonds were issued for a 15 year period with a final maturity at December 15, 2017. The capital appreciation bonds were issued for a 12 year period with a final maturity at December 15, 2014. The final amount of capital appreciation of the bonds will be \$1,710,000. For fiscal year 2003, \$57,269 was accreted. The bonds are being retired from the bond retirement fund.

The 2003 classroom facilities refunding serial bonds are subject to prior redemption on or after December 1, 2014, for serial bonds maturing after December 15, 2004, either in whole or part on any date in integral multiples of \$5,000 at par.

The School District's overall legal debt margin was \$43,626,213 with an unvoted debt margin of \$416,882 at June 30, 2004. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June, 30	General Obligation Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2005	\$1,250,502	\$308,094	\$0	\$0
2006	1,325,503	253,601	0	0
2007	1,270,503	204,390	0	0
2008	170,503	177,560	642,135	577,865
2009	175,503	171,039	621,241	643,759
2010-2014	486,004	766,513	2,185,374	3,614,626
2015-2018	3,660,000	306,987	0	0
Total	<u>\$8,338,518</u>	<u>\$2,188,184</u>	<u>\$3,448,750</u>	<u>\$4,836,250</u>

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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Fiscal Year Ending June, 30	Tax Anticipation Note		Total	
	Principal	Interest	Principal	Interest
2005	\$420,000	\$11,550	\$1,670,502	\$319,644
2006	0	0	1,325,503	253,601
2007	0	0	1,270,503	204,390
2008	0	0	812,638	755,425
2009	0	0	796,744	814,798
2010-2014	0	0	2,671,378	4,381,139
2015-2018	0	0	3,660,000	306,987
Total	<u>\$420,000</u>	<u>\$11,550</u>	<u>\$12,207,268</u>	<u>\$7,035,984</u>

### Note 16 - Note Debt

The School District's note activity for fiscal year 2004, including amounts outstanding and interest rates, is as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04
<i>General Fund:</i>				
2003 2.0% Property Acquisition				
Manuscript Note	\$270,000		\$0	\$270,000
2004 2.0% Property Acquisition				
Manuscript Note	0	270,000	0	270,000
<i>Total Fund Obligations</i>	<u>\$270,000</u>	<u>\$270,000</u>	<u>\$270,000</u>	<u>\$270,000</u>

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

### Note 17 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2004, only the unspent portion of certain workers' compensation refunds continues to be required to be set aside.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

	Textbooks		
	Instructional Materials Reserve	Capital Improvement Reserve	Budget Reserve
Set-aside Reserve Balances as of June 30, 2003	(\$658,932)	\$0	\$106,632
Current Year Set-aside Requirement	445,340	445,340	0
Offsets During the Fiscal Year	0	(196,223)	0
Qualifying Disbursements	<u>(719,324)</u>	<u>(876,513)</u>	<u>0</u>
Totals	<u><u>(\$932,916)</u></u>	<u><u>(\$627,396)</u></u>	<u><u>\$106,632</u></u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u><u>(\$932,916)</u></u>	<u><u>\$0</u></u>	<u><u>\$106,632</u></u>
Set-aside Reserve Balances as of June 30, 2004	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$106,632</u></u>

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

#### **Note 18 - State School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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## **Note 19 - Jointly Governed Organizations**

### ***A. Lake Erie Education Computer Association (LEECA)***

The Lake Erie Education Computer Association (LEECA) is a jointly governed organization among thirty School Districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors chosen from the general membership of the LEECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. The Olmsted Falls City School District paid \$32,498 to LEECA in fiscal year 2004. Financial information can be obtained by contacting the Treasurer at the Lorain County Educational Service Center, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

### ***B. Ohio Schools Council***

The Ohio Schools Council Association (Council) is a jointly governed organization among 91 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2004, the School District paid \$692 to the Council. Financial information can be obtained by contacting Dave Cottrell, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Rd., Suite 10, Independence, Ohio 44131.

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

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

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

**Olmsted Falls City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

**C. Polaris Career Center**

The Polaris Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the board of each participating school district. The board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. Olmsted Falls City School District students may attend the vocational school. Each school district's control is limited to its representation on the board. The School District did not contribute to Polaris Career Center during fiscal year 2004. Financial information can be obtained by contacting the Treasurer at the Polaris Career Center, 7285 Old Oak Boulevard, Middleburg Heights, Ohio 44130.

**Note 20 - Insurance Purchasing Pool**

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

**Note 21 - Contingencies**

**A. Grants**

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

**B. Litigation**

The School District is not a party to any legal proceedings.

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**OLMSTED FALLS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>Federal Agency</b> Pass-through Agency Federal Program	<b>Pass Through Agency Awarding Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
<b>Child Nutrition Cluster:</b>						
Food Distribution Program	N/A	10.550	-	\$60,727		\$ 60,727
National School Breakfast	046573 05-PU-03	10.553	\$ 1,021	-	\$1,021	-
National School Breakfast	046573 05-PU-04	10.553	10,815	-	10,815	-
<b>Total National School Breakfast</b>			11,836	-	11,836	-
National School Lunch Program	046573 LL-P4-03	10.555	17,852	-	\$17,852	-
National School Lunch Program	046573 05-PU-04	10.555	99,685	-	99,685	-
<b>Total National School Lunch Program</b>			117,537	-	117,537	-
<b>Total U.S. Department of Agriculture - Child Nutrition Cluster</b>			<b>129,373</b>	<b>60,727</b>	<b>129,373</b>	<b>60,727</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
<b>Special Education Cluster:</b>						
Special Education Grants to States, IDEA Part B	046573 6B SF 03	84.027	-	-	25,545	-
Special Education Grants to States, IDEA Part B	046573 6B SD 04 P	84.027	15,167	-	13,149	-
Special Education Grants to States, IDEA Part B	046573 6B SF 04	84.027	364,296	-	343,684	-
<b>Total Special Education Grants to States</b>			<b>379,463</b>	<b>0</b>	<b>382,378</b>	<b>0</b>
Special Education Preschool Grants	046573 PG S1-04	84.173	19,496	-	16,258	-
<b>Total Special Education Preschool Grants</b>			<b>19,496</b>	<b>0</b>	<b>16,258</b>	<b>0</b>
<b>Total Special Education Cluster</b>			<b>398,959</b>	<b>0</b>	<b>398,636</b>	<b>0</b>
Innovation Education Program Strategies, Title V	043547 C2 S1 03	84.298	-	-	6,141	-
Innovation Education Program Strategies, Title V	046573 C2-S1-04	84.298	18,176	-	17,649	-
<b>Total Innovation Education Program Strategies, Title V</b>			<b>18,176</b>	<b>0</b>	<b>23,790</b>	<b>0</b>
Improving Teacher Quality, Title II-A	043547 TR S1 03	84.367	-	-	3,852	-
Improving Teacher Quality, Title II-A	046573 TR-S1-04	84.367	54,444	-	53,240	-
<b>Total Improving Teacher Quality, Title II-A</b>			<b>54,444</b>	<b>0</b>	<b>57,092</b>	<b>0</b>
Safe and Drug Free Schools and Communities- State Grants	046573 DR S1 03	84.186	-	-	271	-
Safe and Drug Free Schools and Communities- State Grants	046573 DR S1 04	84.186	8,216	-	7,832	-
<b>Total Safe and Drug Free Schools and Communities- State Grants</b>			<b>8,216</b>	<b>0</b>	<b>8,103</b>	<b>0</b>
Education Technology State Grants, Title II-D	043547 TJ S1 04	84.318	-	-	771	-
<b>Total Education Technology State Grants</b>			<b>0</b>	<b>0</b>	<b>771</b>	<b>0</b>
School Renovation Grants, ATIP	043547 AT S3 02	84.352A	-	-	4,209	-
<b>Total School Renovation Grants</b>			<b>0</b>	<b>0</b>	<b>4,209</b>	<b>0</b>
<b>Total U.S. Department of Education</b>			<b>479,795</b>	<b>0</b>	<b>492,601</b>	<b>0</b>
<b>Total All Federal Funds</b>			<b>\$609,168</b>	<b>\$60,727</b>	<b>\$621,974</b>	<b>\$60,727</b>

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

**OLMSTED FALLS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 2004**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B –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. Values may change from month to month and are entirely subjective. At June 30, 2004, the District had no significant food commodities in inventory.

**NOTE C – NATIONAL SCHOOL LUNCH PROGRAM**

Cash receipts from the U.S. Department of Agriculture are co-mingled with State grants and local monies. It is assumed federal monies are expended first.

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Olmsted Falls City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 22, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 22, 2005, we reported other matters related to noncompliance we deemed immaterial.

Olmsted Falls City School District  
Cuyahoga County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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



**Betty Montgomery**  
Auditor of State

April 22, 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  
Olmsted Falls City School District  
Cuyahoga County  
26937 Bagley Road  
Olmsted Falls, Ohio 44138

#### Compliance

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

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

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

#### Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

Olmsted Falls City School District  
Cuyahoga County  
Independent Accountants' Report on Compliance with Requirements  
Applicable to its Major Federal Program and Internal Control Over  
Compliance in Accordance with Circular A-133  
Page 2

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated April 22, 2005.

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



**Betty Montgomery**  
Auditor of State

April 22, 2005

**OLMSTED FALLS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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

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

**OLMSTED FALLS 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 FOR FEDERAL AWARDS**

None



**Auditor of State  
Betty Montgomery**

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800-282-0370  
Facsimile 614-466-4490

**OLMSTEAD FALLS CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

A handwritten signature in cursive script that reads "Susan Babbitt".

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2005**