

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT 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
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	19
Statement of Net Assets - Proprietary Fund .....	20
Statement of Revenues, Expenses and Changes in Net Assets-Proprietary Fund.....	21
Statement of Cash Flows-Proprietary Fund.....	22
Statement of Fiduciary Net Assets -Fiduciary Funds.....	23
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds .....	24
Notes to the Basic Financial Statements .....	25
Federal Awards Receipts and Expenditures Schedule.....	51
Notes to the Federal Awards Receipts and Expenditures Schedule .....	52
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	53
Independent Accounts' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	55
Schedule of Findings.....	57
Schedule of Prior Audit Findings.....	60

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Cuyahoga Falls City School District  
Summit County  
431 Stow Avenue  
Cuyahoga Falls, Ohio 44222

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Cuyahoga Falls City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2006, 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, the major fund, and the aggregate remaining fund information of the Cuyahoga Falls City School District, Summit County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the financial statements, the District was placed in fiscal watch by the Auditor of State pursuant to Ohio Revised Code Section 3316.03. Additionally, as disclosed in Note 3, the District restated net assets as of June 30, 2005 to implement GASB 47.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2007, 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.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

February 16, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

The management's discussion and analysis of the Cuyahoga Falls City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$3,212,136 which represents a 62.18% increase from the restated 2005 net assets.
- General revenues accounted for \$41,075,224 in revenue or 83.76% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,962,155 or 16.24% of total revenues of \$49,037,379. The District also has a special item for a gain on sale of capital assets in the amount of \$516,128 not included in the total revenues above.
- The District had \$46,341,371 in expenses related to governmental activities; only \$7,962,155 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$41,075,224 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$41,504,684 in revenues and other financing sources and \$41,978,265 in expenditures and other financing uses. The fund deficit of the general fund increased \$473,581 from \$2,790,200 to \$3,263,781.

**Using these Basic Financial Statements**

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

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

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

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

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

The District's Statement of Net Assets and Statement of Activities can be found on pages 13-14 of this report.

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

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented in one private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals and until September 2005, the Mid-Eastern Ohio Special Education Regional Resource Center (MEO/SERRC). These activities are reported in agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-50 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005. Certain 2005 balances have been restated due to the implementation of GASB Statement No. 47 as described in Note 3.A. in the notes to the basic financial statements.

	<b>Net Assets</b>	
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 32,847,340	\$ 26,366,733
Capital assets, net	<u>11,185,444</u>	<u>11,628,295</u>
Total assets	<u>44,032,784</u>	<u>37,995,028</u>
<b><u>Liabilities</u></b>		
Current liabilities	33,187,087	29,400,122
Long-term liabilities	<u>12,799,233</u>	<u>13,760,578</u>
Total liabilities	<u>45,986,320</u>	<u>43,160,700</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	4,513,081	3,882,159
Restricted	1,507,905	145,237
Unrestricted (deficit)	<u>(7,974,522)</u>	<u>(9,193,068)</u>
Total net assets	<u>\$ (1,953,536)</u>	<u>\$ (5,165,672)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's liabilities exceeded assets by \$1,953,536.

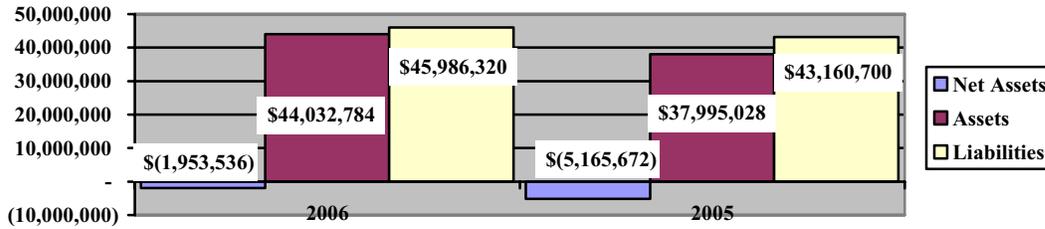
At year-end, capital assets represented 25.40% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$4,513,081. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. The increase in investment in capital assets net of related debt is due to the early retirement of capital leases.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

A portion of the District's net assets, \$1,507,905, represents resources that are subject to external restriction on how they may be used. The remaining unrestricted net assets balance is a deficit of \$7,974,522.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2006 and 2005. Certain 2005 balances have been restated due to a prior period adjustment described in Note 3.A in the notes to the financials.

**Change in Net Assets**

	Governmental Activities 2006	Restated Governmental Activities 2005
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 4,079,007	\$ 3,109,905
Operating grants and contributions	3,883,148	3,725,975
Capital grants and contributions	-	44,335
General revenues:		
Property taxes	25,064,587	23,345,700
Grants and entitlements	15,650,632	15,651,319
Investment earnings	237,635	119,317
Payment in lieu of taxes	24,549	85,427
Other	97,821	85,456
Total revenues	<u>49,037,379</u>	<u>46,167,434</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

	<b>Change in Net Assets</b>	
	Governmental	Restated
	Activities	Governmental
	<u>2006</u>	<u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 19,912,957	\$ 21,402,001
Special	4,714,022	5,720,965
Vocational	929,595	996,781
Adult/continuing	534	1,580
Other	3,215,647	2,650,881
Support services:		
Pupil	2,144,731	2,274,001
Instructional staff	1,399,943	1,672,926
Board of education	70,625	114,224
Administration	2,789,236	2,991,854
Fiscal	832,473	1,017,339
Business	357,109	369,187
Operations and maintenance	4,570,464	4,987,777
Pupil transportation	1,223,129	1,127,432
Central	306,959	216,382
Operations of non-instructional services:		
Non-instructional services	885,620	167,235
Food service operations	1,597,444	1,728,987
Extracurricular activities	897,947	788,363
Interest and fiscal charges	<u>492,936</u>	<u>428,462</u>
Total expenses	<u>46,341,371</u>	<u>48,656,377</u>
Change in net assets before special item	2,696,008	(2,488,943)
Special item: Gain on sale of capital assets	<u>516,128</u>	<u>-</u>
Change in net assets	3,212,136	(2,488,943)
Net assets at beginning of year (restated)	<u>(5,165,672)</u>	<u>(2,676,729)</u>
Net assets at end of year	<u>\$ (1,953,536)</u>	<u>\$ (5,165,672)</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$3,212,136. Total governmental expenses of \$46,341,371 were offset by program revenues of \$7,962,155 and general revenues of \$41,075,224. Program revenues supported 17.18% of the total governmental expenses.

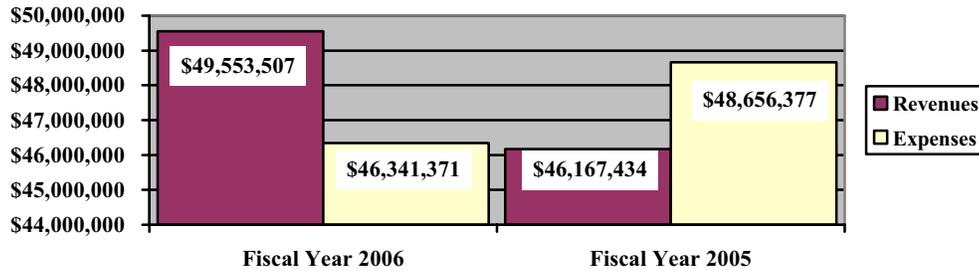
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 83.03% of the total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**Governmental Activities - Revenues and Expenses**



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

	<b>Governmental Activities</b>			
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Restated Total Cost of Services <u>2005</u>	Restated Net Cost of Services <u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 19,912,957	\$ 17,203,512	\$ 21,402,001	\$ 19,442,751
Special	4,714,022	3,483,039	5,720,965	3,423,055
Vocational	929,595	850,252	996,781	920,145
Adult/continuing	534	(611)	1,580	(199)
Other	3,215,647	3,149,550	2,650,881	2,564,973
Support services:				
Pupil	2,144,731	2,026,798	2,274,001	2,200,150
Instructional staff	1,399,943	864,742	1,672,926	1,513,667
Board of education	70,625	70,625	114,224	114,224
Administration	2,789,236	2,783,951	2,991,854	2,976,710
Fiscal	832,473	832,473	1,017,339	1,009,845
Business	357,109	348,813	369,187	369,187
Operations and maintenance	4,570,464	4,152,300	4,987,777	4,747,201
Pupil transportation	1,223,129	1,197,185	1,127,432	1,105,377
Central	306,959	303,034	216,382	212,242
Operations of non-instructional services:				
Non-instructional services	885,620	(84,817)	167,235	(13,308)
Food service operations	1,597,444	73,597	1,728,987	190,589
Extracurricular activities	897,947	631,837	788,363	571,091
Interest and fiscal charges	492,936	492,936	428,462	428,462
<b>Total expenses</b>	<u>\$ 46,341,371</u>	<u>\$ 38,379,216</u>	<u>\$ 48,656,377</u>	<u>\$ 41,776,162</u>

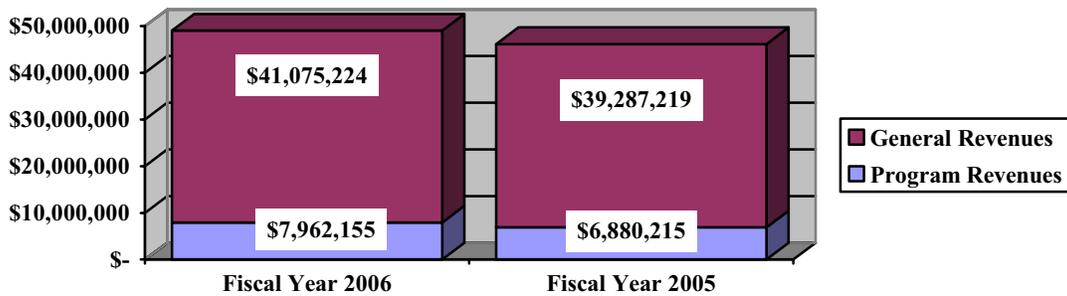
**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 85.80% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.82%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund deficit of \$1,633,764, which is lower than last year's deficit of \$3,645,067. The overall increase in fund deficit is due to transfers made to other funds – otherwise expenditures decreased and revenues increased. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance/(Deficit) <u>June 30, 2006</u>	Fund Balance/(Deficit) <u>June 30, 2005</u>	Increase/ (Decrease)
General	\$ (3,263,781)	\$ (2,790,200)	\$ (473,581)
Other Governmental	<u>1,630,017</u>	<u>(854,867)</u>	<u>2,484,884</u>
Total	<u>\$ (1,633,764)</u>	<u>\$ (3,645,067)</u>	<u>\$ 2,011,303</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

***General Fund***

During fiscal year 2006, the District's general fund deficit increased \$473,581. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2006</u>	<u>2005</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 21,293,700	\$ 17,743,433	20.01 %
Tuition	1,777,166	1,579,817	12.49 %
Earnings on investments	224,380	74,243	202.22 %
Intergovernmental	15,575,848	15,575,633	0.00 %
Other revenues	<u>596,111</u>	<u>382,531</u>	55.83 %
Total	<u>\$ 39,467,205</u>	<u>\$ 35,355,657</u>	11.63 %
<b><u>Expenditures</u></b>			
Instruction	\$ 26,628,752	\$ 27,258,306	(2.31) %
Support services	12,901,045	14,672,443	(12.07) %
Extracurricular activities	624,619	536,128	16.51 %
Facilities acquisition and construction	-	189,304	(100.00) %
Debt service	<u>587,017</u>	<u>268,814</u>	118.37 %
Total	<u>\$ 40,741,433</u>	<u>\$ 42,924,995</u>	(5.09) %

The most significant increase in revenues occurred in earnings on investments which were due to increases in interest rates by the Federal Reserve during 2006. Other revenues also increased due to increases in rental income for the rent received on the two additional buildings now being rented by the District as well as an increase in tuition revenue for fees charged by the District to other Districts. Tax revenues have also increased due to the District passing a tax levy in fiscal year 2005. Decreases in expenditures have been due to reduction in staff and other reductions made to improve the District's financial condition. Increase in debt service is due to the early retirement of capital leases. Despite these positive changes the General fund transferred \$1,236,832 to other funds causing the negative change in fund balance.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$44,956,305 and final budgeted revenues and other financing sources were \$40,633,653. The original budgeted revenues were based on conservative estimates which were decreased during the year for a total decrease of \$4,322,652. Actual revenues and other financing sources for fiscal year 2006 were \$41,071,121. This represents a \$437,468 increase from the final budgeted revenues, primarily due to increased tax and intergovernmental receipts over budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$40,476,102 were increased throughout the year by \$980,636 to \$41,456,738 in the final budget. The original appropriations were budgeted in accordance with estimated resources available on the original amended certificate of estimated resources which were based on conservative estimates. Final estimated resources exceed the appropriations by \$105,110. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$41,502,179, which was \$45,441 more than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$11,185,444 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 1,701,913	\$ 1,278,407
Land improvements	800,109	841,552
Building and improvements	6,718,735	7,220,621
Furniture and equipment	1,663,370	1,876,708
Vehicles	<u>301,317</u>	<u>411,007</u>
 Total	 <u>\$ 11,185,444</u>	 <u>\$ 11,628,295</u>

The overall decrease in capital assets of \$442,851 is due to disposals of capital assets for 2006 totaling \$285,589, which is net of accumulated depreciation, and depreciation expense in 2006 of \$929,322, which exceeded additions of \$772,060. Disposals consisted of the disposal of a building and land through a sale which resulted in a gain of \$516,128, which is reported as a special item in the statement of activities. The proceeds from the sale of the building are reported as a special item in the fund financial statements as "Sale of capital assets" in the amount of \$801,717.

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

***Debt Administration***

At June 30, 2006, the District had \$9,772,363 in general obligation bonds, asbestos removal loans, IP phone system loans, and tax anticipation notes outstanding. Of this total, \$1,175,364 is due within one year and \$8,596,999 is due in more than one year. The following table summarizes the bonds and notes outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Governmental obligation bonds	\$ 6,202,000	\$ 6,621,000
Asbestos removal loan	171,363	197,727
IP phone system loan	299,000	391,000
Tax anticipation notes	3,100,000	3,100,000
Capital Leases	<u>-</u>	<u>536,409</u>
 Total	 <u>\$ 9,772,363</u>	 <u>\$ 10,846,136</u>

At June 30, 2006, the District's unvoted debt margin was \$824,963.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)**

See Note 11 to the basic financial statements for detail on the District's debt administration.

**Current Related Financial Activities**

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

Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

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

**Contacting the District's Financial Management**

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 2,915,467
Receivables:	
Taxes . . . . .	29,325,691
Accounts . . . . .	13,894
Intergovernmental . . . . .	477,875
Materials and supplies inventory . . . . .	114,413
Capital assets:	
Land . . . . .	1,701,913
Depreciable capital assets, net . . . . .	9,483,531
Total capital assets, net. . . . .	11,185,444
 Total assets. . . . .	 44,032,784
<b>Liabilities:</b>	
Accounts payable. . . . .	190,788
Accrued wages and benefits . . . . .	3,731,844
Pension obligation payable. . . . .	1,073,444
Intergovernmental payable . . . . .	277,653
Deferred revenue . . . . .	27,118,601
Accrued interest payable . . . . .	35,176
Claims payable . . . . .	759,581
Long-term liabilities:	
Due within one year. . . . .	1,600,679
Due in more than one year . . . . .	11,198,554
 Total liabilities . . . . .	 45,986,320
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	4,513,081
Restricted for:	
Capital projects . . . . .	355,077
Debt service. . . . .	865,474
Locally funded progams. . . . .	49,693
State funded progams . . . . .	144,148
Federally funded progams. . . . .	12,312
Student activities . . . . .	70,201
Other purposes . . . . .	11,000
Unrestricted (deficit) . . . . .	(7,974,522)
 Total net assets (deficit) . . . . .	 \$ (1,953,536)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 19,912,957	\$ 2,339,937	\$ 369,508	\$ (17,203,512)
Special . . . . .	4,714,022	-	1,230,983	(3,483,039)
Vocational . . . . .	929,595	5,998	73,345	(850,252)
Adult education . . . . .	534	1,145	-	611
Other . . . . .	3,215,647	66,097	-	(3,149,550)
Support services:				
Pupil . . . . .	2,144,731	-	117,933	(2,026,798)
Instructional staff . . . . .	1,399,943	3,287	531,914	(864,742)
Board of education . . . . .	70,625	-	-	(70,625)
Administration . . . . .	2,789,236	-	5,285	(2,783,951)
Fiscal . . . . .	832,473	-	-	(832,473)
Business . . . . .	357,109	-	8,296	(348,813)
Operations and maintenance . . . . .	4,570,464	388,164	30,000	(4,152,300)
Pupil transportation . . . . .	1,223,129	25,944	-	(1,197,185)
Central . . . . .	306,959	-	3,925	(303,034)
Operation of non-instructional services:				
Non-instructional services . . . . .	885,620	3,807	966,630	84,817
Food service operations . . . . .	1,597,444	978,518	545,329	(73,597)
Extracurricular activities . . . . .	897,947	266,110	-	(631,837)
Interest and fiscal charges . . . . .	492,936	-	-	(492,936)
Total governmental activities . . . . .	<u>\$ 46,341,371</u>	<u>\$ 4,079,007</u>	<u>\$ 3,883,148</u>	<u>(38,379,216)</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				21,214,513
Debt service . . . . .				3,850,074
Grants and entitlements not restricted to specific programs . . . . .				15,650,632
Investment earnings . . . . .				237,635
Payment in lieu of taxes . . . . .				24,549
Miscellaneous . . . . .				97,821
Total general revenues . . . . .				<u>41,075,224</u>
<b>Special item:</b>				
Gain on sale of capital assets . . . . .				516,128
Total general revenues and special item . . . . .				<u>41,591,352</u>
Change in net assets . . . . .				3,212,136
<b>Net assets (deficit)</b>				
at beginning of year (restated) . . . . .				<u>(5,165,672)</u>
<b>Net assets (deficit)</b>				
at end of year . . . . .				<u>\$ (1,953,536)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 580,182	\$ 1,778,320	\$ 2,358,502
Receivables:			
Taxes . . . . .	28,629,430	696,261	29,325,691
Accounts . . . . .	9,735	4,159	13,894
Intergovernmental . . . . .	407,237	70,638	477,875
Materials and supplies inventory . . . . .	92,650	21,763	114,413
Total assets . . . . .	\$ 29,719,234	\$ 2,571,141	\$ 32,290,375
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 119,223	\$ 71,565	\$ 190,788
Accrued wages and benefits . . . . .	3,591,532	140,312	3,731,844
Compensated absences payable . . . . .	426,197	6,226	432,423
Pension obligation payable. . . . .	1,011,344	62,100	1,073,444
Intergovernmental payable. . . . .	264,621	13,032	277,653
Deferred revenue. . . . .	27,570,098	647,889	28,217,987
Total liabilities . . . . .	32,983,015	941,124	33,924,139
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	78,648	79,879	158,527
Reserved for materials and supplies inventory. . . . .	92,650	21,763	114,413
Reserved for property tax unavailable for appropriation . . . . .	1,446,187	48,372	1,494,559
Unreserved, undesignated (deficit), reported in:			
General fund . . . . .	(4,881,266)	-	(4,881,266)
Special revenue funds. . . . .	-	284,531	284,531
Debt service fund . . . . .	-	840,395	840,395
Capital projects funds. . . . .	-	355,077	355,077
Total fund balances (deficit) . . . . .	(3,263,781)	1,630,017	(1,633,764)
Total liabilities and fund balances . . . . .	\$ 29,719,234	\$ 2,571,141	\$ 32,290,375

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances (deficit)</b>		\$	(1,633,764)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			11,185,444
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	712,531	
Tuition		386,855	
Total		1,099,386	1,099,386
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			(202,616)
In the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(35,176)
Long-term liabilities, including bonds, notes and lease obligations payable are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(2,594,447)	
General obligation bonds payable		(6,202,000)	
Loans payable		(470,363)	
Tax anticipation note payable		(3,100,000)	
Total		(12,366,810)	(12,366,810)
<b>Net assets (deficit) of governmental activities</b>		\$	(1,953,536)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 21,293,700	\$ 3,852,460	\$ 25,146,160
Tuition . . . . .	1,777,166	1,145	1,778,311
Charges for services . . . . .	-	978,518	978,518
Transportation fees . . . . .	25,944	-	25,944
Earnings on investments . . . . .	224,380	13,255	237,635
Classroom materials and fees . . . . .	-	134,052	134,052
Extracurricular . . . . .	82,842	349,058	431,900
Rentals . . . . .	388,164	-	388,164
Other local revenues . . . . .	99,161	94,195	193,356
Intergovernmental - Intermediate . . . . .	-	22,040	22,040
Intergovernmental - State . . . . .	15,531,314	1,316,488	16,847,802
Intergovernmental - Federal . . . . .	44,534	2,582,181	2,626,715
Total revenues . . . . .	<u>39,467,205</u>	<u>9,343,392</u>	<u>48,810,597</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	18,870,096	655,074	19,525,170
Special . . . . .	3,662,862	1,091,629	4,754,491
Vocational . . . . .	877,730	71,317	949,047
Adult education . . . . .	-	534	534
Other . . . . .	3,218,064	-	3,218,064
Support services:			
Pupil . . . . .	2,027,020	113,629	2,140,649
Instructional staff . . . . .	831,804	527,459	1,359,263
Board of education . . . . .	69,293	-	69,293
Administration . . . . .	2,805,030	6,234	2,811,264
Fiscal . . . . .	837,328	8,799	846,127
Business . . . . .	356,996	10,240	367,236
Operations and maintenance . . . . .	4,644,525	30,000	4,674,525
Pupil transportation . . . . .	1,114,730	-	1,114,730
Central . . . . .	214,319	7,150	221,469
Operation of non-instructional services:			
Non-instructional services . . . . .	-	895,233	895,233
Food service operations . . . . .	-	1,585,115	1,585,115
Extracurricular activities . . . . .	624,619	233,757	858,376
Facilities acquisition and construction . . . . .	-	447,840	447,840
Debt service:			
Principal retirement . . . . .	536,409	537,364	1,073,773
Interest and fiscal charges . . . . .	50,608	438,204	488,812
Total expenditures . . . . .	<u>40,741,433</u>	<u>6,659,578</u>	<u>47,401,011</u>
Excess of revenues over (under) expenditures . . . . .	<u>(1,274,228)</u>	<u>2,683,814</u>	<u>1,409,586</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	2,037,479	1,036,832	3,074,311
Transfers (out) . . . . .	<u>(1,236,832)</u>	<u>(2,037,479)</u>	<u>(3,274,311)</u>
Total other financing sources (uses) . . . . .	<u>800,647</u>	<u>(1,000,647)</u>	<u>(200,000)</u>
<b>Special item:</b>			
Sale of capital assets . . . . .	-	801,717	801,717
Net change in fund balances . . . . .	(473,581)	2,484,884	2,011,303
<b>Fund deficits at beginning of year . . . . .</b>	<u>(2,790,200)</u>	<u>(854,867)</u>	<u>(3,645,067)</u>
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ (3,263,781)</u>	<u>\$ 1,630,017</u>	<u>\$ (1,633,764)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

**Net change in fund balances - total governmental funds** \$ 2,011,303

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

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

Capital asset additions	\$ 772,060	
Current year depreciation	(929,322)	
Total		(157,262)

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. (285,589)

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

Delinquent property taxes	(57,024)	
Tuition	331,544	
Intergovernmental	(47,738)	
Total		226,782

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 1,073,773

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expenses when due. (4,124)

Some expenses, such as compensated absences reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (88,205)

Internal service fund for self-insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenues (expenses) of the internal service fund are allocated among the governmental activities. 435,458

**Change in net assets of governmental activities** \$ 3,212,136

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 22,981,016	\$ 20,668,458	\$ 20,894,835	\$ 226,377
Tuition . . . . .	1,960,412	1,763,138	1,782,449	19,311
Transportation fees . . . . .	27,586	24,810	25,082	272
Earnings on investments . . . . .	246,783	221,949	224,380	2,431
Extracurricular . . . . .	91,113	81,944	82,842	898
Rentals . . . . .	426,242	383,349	387,548	4,199
Other local revenues . . . . .	92,182	82,906	83,814	908
Intergovernmental - State . . . . .	17,081,991	15,363,047	15,531,314	168,267
Intergovernmental - Federal . . . . .	48,980	44,052	44,534	482
<b>Total revenue . . . . .</b>	<b>42,956,305</b>	<b>38,633,653</b>	<b>39,056,798</b>	<b>423,145</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	18,098,765	18,557,520	18,578,779	(21,259)
Special . . . . .	3,558,021	3,648,208	3,652,387	(4,179)
Vocational . . . . .	850,520	872,078	873,077	(999)
Other . . . . .	3,104,406	3,183,095	3,186,741	(3,646)
Support services:				
Pupil . . . . .	1,959,841	2,009,518	2,011,820	(2,302)
Instructional staff . . . . .	838,266	859,513	860,498	(985)
Board of education . . . . .	70,941	72,740	72,823	(83)
Administration . . . . .	2,732,882	2,802,153	2,805,363	(3,210)
Fiscal . . . . .	817,478	838,199	839,159	(960)
Business . . . . .	349,443	358,301	358,711	(410)
Operations and maintenance . . . . .	4,454,278	4,567,182	4,572,414	(5,232)
Pupil transportation . . . . .	1,076,310	1,103,592	1,104,856	(1,264)
Central . . . . .	155,927	159,880	160,063	(183)
Extracurricular activities . . . . .	620,776	636,511	637,240	(729)
<b>Total expenditures . . . . .</b>	<b>38,687,854</b>	<b>39,668,490</b>	<b>39,713,931</b>	<b>(45,441)</b>
Excess of revenues over (under) expenditures . . . . .	4,268,451	(1,034,837)	(657,133)	377,704
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	2,000,000	2,000,000	2,001,878	1,878
Transfers (out) . . . . .	(1,788,248)	(1,788,248)	(1,788,248)	-
Refund of prior year expenditures . . . . .	-	-	12,445	12,445
<b>Total other financing sources (uses) . . . . .</b>	<b>211,752</b>	<b>211,752</b>	<b>226,075</b>	<b>14,323</b>
Net change in fund balance . . . . .	4,480,203	(823,085)	(431,058)	392,027
<b>Fund balance at beginning of year . . . . .</b>	<b>891,080</b>	<b>891,080</b>	<b>891,080</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>37,115</b>	<b>37,115</b>	<b>37,115</b>	<b>-</b>
<b>Fund balance (deficit) at end of year . . . . .</b>	<b>\$ 5,408,398</b>	<b>\$ 105,110</b>	<b>\$ 497,137</b>	<b>\$ 392,027</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<b>Governmental Activities - Internal Service Funds</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents. . . . .	\$ 556,965
Total assets . . . . .	556,965
<b>Liabilities:</b>	
Claims payable . . . . .	759,581
Total liabilities . . . . .	759,581
<b>Net assets:</b>	
Unrestricted (deficit) . . . . .	(202,616)
Total net assets (deficit) . . . . .	\$ (202,616)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Governmental Activities - Internal Service Funds</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 5,500,265
Total operating revenues . . . . .	<u>5,500,265</u>
<b>Operating expenses:</b>	
Purchased services . . . . .	56,538
Claims expense . . . . .	<u>5,208,269</u>
Total operating expenses . . . . .	<u>5,264,807</u>
Operating income before transfers. . . . .	235,458
Transfer in . . . . .	<u>200,000</u>
Change in net assets. . . . .	435,458
<b>Net assets (deficit) at beginning of year . .</b>	<u>(638,074)</u>
<b>Net assets (deficit) at end of year. . . . .</b>	<u>\$ (202,616)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 5,503,483
Cash payments for purchased services . . . . .	(56,538)
Cash payments for claims. . . . .	(5,092,694)
	354,251
<b>Net cash provided by operating activities . . . . .</b>	<b>354,251</b>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from transfers in. . . . .	200,000
	200,000
<b>Net cash provided by noncapital financing activities. . . . .</b>	<b>200,000</b>
Net increase in cash and cash equivalents . . . . .	554,251
<b>Cash and cash equivalents at beginning of year. . .</b>	<b>2,714</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 556,965</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 235,458
Changes in assets and liabilities:	
Decrease in accounts receivable . . . . .	3,218
Increase in claims payable . . . . .	115,575
	118,793
<b>Net cash provided by operating activities . . . . .</b>	<b>\$ 354,251</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 35,479	\$ 178,562
Receivables:		
Accounts . . . . .	-	302
Total assets. . . . .	35,479	\$ 178,864
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 811
Due to others . . . . .	-	113,888
Due to students . . . . .	-	64,165
Total liabilities . . . . .	-	\$ 178,864
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	35,479	
Total net assets . . . . .	\$ 35,479	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		<u>Private-Purpose Trust</u>
		<u>Scholarship</u>
<b>Additions:</b>		
Interest . . . . .	\$	1,385
Gifts and contributions. . . . .		544
		<hr/>
Total additions. . . . .		1,929
		<hr/>
<b>Deductions:</b>		
Scholarships awarded . . . . .		3,000
		<hr/>
Change in net assets . . . . .		(1,071)
<b>Net assets at beginning of year. . . . .</b>		<hr/> 36,550
<b>Net assets at end of year . . . . .</b>	<b>\$</b>	<b><hr/><hr/>35,479</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

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

The District currently operates 7 elementary schools, 3 middle schools, and 1 comprehensive high school. The District employs 232 non-certified and 369 certified full-time and part-time employees to provide services to approximately 5,191 students in grades K through 12 and various community groups.

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

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*FISCAL AGENT*

Mid-Eastern Ohio Special Education Regional Resource Center (MEO/SERRC)

MEO/SERRC is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The District served as fiscal agent for MEO/SERRC which is accounted for in an agency fund until September 2005. The Summit County Educational Service Center now serves as fiscal agent.

*DISCRETELY PRESENTED COMPONENT UNIT*

Schnee Learning Center (Center)

The Center is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Center is a new conversion school with an objective to deliver a comprehensive educational program of high quality, tied to state and national standards for at-risk students, which can be delivered to students in grade 6 through grade 12. The Center is governed by a Board of Trustees. The Board of Trustees may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. Based on the significant services provided by the District to Center, the Center's purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Trustees of the Center, The Center is reflected as a component unit of the District. However, the Center has not been disclosed in the basic financial statements of the District due to the immateriality of the Center. Separately issued financial statements can be obtained from the Treasurer of the Center at 431 Stow Avenue, Cuyahoga Falls, Ohio 44222-0396

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

*JOINTLY GOVERNED ORGANIZATIONS*

Northeast Ohio Network for Educational Technology (NEOnet)

NEOnet is a jointly governed organization among sixteen school districts and the Summit County Educational Service Center that was formed July 1, 1995. NEOnet was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to improve administrative and instructional functions of member districts. The seven-member board of directors consists of four superintendents, two members of the treasurers' committee and one member of the student services subcommittee. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of NEOnet including budgeting, appropriating, contracting and designating management. All revenues are generated from State funding and an annual fee per student to participating districts. The Summit County Educational Service Center is the fiscal agent of NEOnet. Financial information is available from the Treasurer of the Summit County Educational Service Center, 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221. During the current fiscal year, the School District contributed \$10,269 to NEOnet.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Six District Educational Compact (Compact)

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

*PROPRIETARY FUND*

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. During fiscal year 2006, the District had two agency funds, the largest of which accounts for termination benefits for employees of the Mid-Eastern Ohio Special Educational Regional Resource Center (MEO/SERRC). As of September 2005, the District was no longer fiscal agent of MEO/SERRC.

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

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

**D. Basis of Accounting**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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, 2006, but which were levied to finance fiscal year 2007 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 fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Summit County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level for all funds, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed appropriations totals.

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

**F. Cash and Investments**

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

During fiscal year 2006, investments were limited to repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the general fund during fiscal year 2006 amounted to \$224,380 which includes \$134,275 assigned from other District funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

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

**G. Inventory**

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

**H. Capital Assets**

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

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

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

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental type activities columns of the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**J. Compensated Absences**

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

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

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

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

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

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

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

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

**L. Fund Balance Reserves**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**M. Estimates**

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

**N. Net Assets**

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

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

**O. Operating Revenues and Expenses**

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

**P. Interfund Activity**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2006, the District incurred a transaction that would be classified as a special item. The special item relates to the sale of capital assets (the land and the Bode building). The gain related to the sale is reflected as a special item on the statement of activities and the receipts from the sale are reported on the fund financial statements as a special item.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries. The implementation of GASB Statement 42 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of GASB Statement 47 did have an effect on the net assets of the District as previously reported at June 30, 2005 as follows:

	Governmental Activities
Net assets, June 30, 2005	\$ (4,776,891)
Implementation of GASB Statement No. 47	(388,781)
Restated Net Assets, June 30, 2005	\$ (5,165,672)

**B. Noncompliance**

In noncompliance with Ohio Revised Code Section 5705.41B, the following funds had expenditures plus encumbrances in excess of appropriations for the year ended June 30, 2006:

	Excess
<u>Major Governmental Fund</u>	
General	\$ 45,441
 <u>Nonmajor Governmental Funds</u>	
IDEA B	203
Student activities	4,320
Vocational education	9,799
Drug free schools	4,019
 <u>Proprietary Fund</u>	
Internal Service	1,194

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)**

**C. Deficit Fund Balance**

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficit</u>
General	\$ 3,263,781
<u>Nonmajor Funds</u>	
EMIS	6,397
Entry Year Programs	40
Poverty Aid	6,348
Title I	44,613
Title III	1
Title VI-B	68,999
Title V	2,357
Drug Free Schools	39
Miscellaneous Federal Grants	9
Title II-A	1,394

The funds with deficit balances complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Protection of 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**A. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$(124,031), exclusive of the \$805,000 repurchase agreement included in investments below. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, the District's entire bank balance of \$3,328 was covered by Federal Deposit Insurance Corporation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

**B. Investments**

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 805,000	\$ 805,000
STAR Ohio	<u>2,448,539</u>	<u>2,448,539</u>
	<u>\$ 3,253,539</u>	<u>\$ 3,253,539</u>

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

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 805,000	24.74
STAR Ohio	<u>2,448,539</u>	<u>75.26</u>
	<u>\$ 3,253,539</u>	<u>100.00</u>

**C. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (124,031)
Investments	<u>3,253,539</u>
Total	<u>\$ 3,129,508</u>

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,915,467
Private-purpose trust funds	35,479
Agency funds	<u>178,562</u>
Total	<u>\$ 3,129,508</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to General Fund from:	
Nonmajor governmental fund	\$ 2,037,479
Transfers to Internal Service from:	
General Fund	200,000
Transfers to Nonmajor Governmental funds from:	
General fund	<u>1,036,832</u>
Total Transfers	<u>\$ 3,274,311</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer to the General fund is from the debt service fund to repay the short-term tax anticipation notes originally receipted into the General fund. The transfer from the general fund to the nonmajor debt service fund is for the repayment of leases.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 6 - PROPERTY TAXES – (Continued)**

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Summit County. The County Fiscal Officer periodically advances to the District their portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,446,187 in the general fund and \$48,372 in the bond retirement debt service fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$1,047,320 in the general fund and \$34,490 in the debt service fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second		2006 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 742,162,170	93.84	\$ 789,427,980	95.69
Public Utility Personal	10,373,400	1.31	8,498,290	1.03
Tangible Personal Property	<u>38,336,064</u>	<u>4.85</u>	<u>27,037,193</u>	<u>3.28</u>
Total	<u>\$ 790,871,634</u>	<u>100.00</u>	<u>\$ 824,963,463</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 62.00		\$ 65.10	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Taxes	\$ 29,325,691
Accounts	13,894
Intergovernmental	<u>477,875</u>
Total	<u>\$ 29,817,460</u>

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

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at June 30,2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30,2006</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,278,407	\$ 460,000	\$ (36,494)	\$ 1,701,913
Total capital assets, not being depreciated	<u>1,278,407</u>	<u>460,000</u>	<u>(36,494)</u>	<u>1,701,913</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,253,817	-	-	2,253,817
Buildings and improvements	23,154,880	141,240	(1,231,677)	22,064,443
Furniture and equipment	4,673,596	170,820	-	4,844,416
Vehicles	<u>1,484,533</u>	<u>-</u>	<u>(86,927)</u>	<u>1,397,606</u>
Total capital assets, being depreciated	<u>31,566,826</u>	<u>312,060</u>	<u>(1,318,604)</u>	<u>30,560,282</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,412,265)	(41,443)	-	(1,453,708)
Buildings and improvements	(15,934,259)	(394,031)	982,582	(15,345,708)
Furniture and equipment	(2,796,888)	(384,158)	-	(3,181,046)
Vehicles	<u>(1,073,526)</u>	<u>(109,690)</u>	<u>86,927</u>	<u>(1,096,289)</u>
Total accumulated depreciation	<u>(21,216,938)</u>	<u>(929,322)</u>	<u>1,069,509</u>	<u>(21,076,751)</u>
Governmental activities capital assets, net	<u>\$ 11,628,295</u>	<u>\$ (157,262)</u>	<u>\$ (285,589)</u>	<u>\$ 11,185,444</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 8 - CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 465,262
Special	7,577
Vocational	13,681
<u>Support Services:</u>	
Pupil	7,678
Instructional staff	44,031
Board of education	1,332
Administration	7,420
Operations and maintenance	78,464
Pupil transportation	108,540
Central	115,499
Non-instructional services	11,642
Extracurricular activities	58,714
Food service operations	9,482
Total depreciation expense	<u>\$ 929,322</u>

**NOTE 9 - OPERATING LEASE**

The District has entered into an operating lease, for a 10-year period commencing on July 1, 2002. The lease is with the Summit County Educational Service Center for facilities to house the offices and functions of the Service Center. The total amount of monthly payments received for the fiscal year totaled \$55,682. Either party upon one year's advance written notice, with the termination date being June 30, can initiate the early termination of this lease. However, the District agrees that it shall not have the right to terminate the lease until the beginning of the third year of the lease.

Upon the sale of the building in March 2006, the lease was terminated. The sale of the building is reflected as a reduction to the District's capital assets in Note 8. The building disposal consisted of a \$1,231,677 reduction of buildings and \$982,582 reduction of accumulated depreciation.

**NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE**

During previous years, the District entered into capitalized leases for fitness equipment, musical instruments and a boiler. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$775,409 on the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$536,409 paid by the general fund which retired the outstanding leases. The District had no capital lease obligations outstanding at June 30, 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. The District has presented a restatement of long-term liabilities due to GASB Statement No. 47 to include the pension health care benefits the District is obligated to pay over a five year period for employees who retired during fiscal year 2005. The liability at June 30, 2005, was \$388,781, which increases the long-term liabilities at June 30, 2005, from \$13,371,797 to \$13,760,578. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Restated Balance at <u>June 30, 2005</u>	<u>Increase</u>	<u>Decrease</u>	Balance at <u>June 30, 2006</u>	Amounts Due in <u>One Year</u>
General Obligation Bonds:					
1999 school improvement bonds	\$ 6,265,000	\$ -	\$ (330,000)	\$ 5,935,000	\$ 345,000
2002 school improvement bonds	<u>356,000</u>	<u>-</u>	<u>(89,000)</u>	<u>267,000</u>	<u>89,000</u>
Total General Obligation Bonds	<u>6,621,000</u>	<u>-</u>	<u>(419,000)</u>	<u>6,202,000</u>	<u>434,000</u>
Long-term Loans:					
2002 IP phone system loan	391,000	-	(92,000)	299,000	95,000
1993 asbestos removal loan	<u>197,727</u>	<u>-</u>	<u>(26,364)</u>	<u>171,363</u>	<u>26,364</u>
Total Loans Payable	<u>588,727</u>	<u>-</u>	<u>(118,364)</u>	<u>470,363</u>	<u>121,364</u>
Tax Anticipation Notes:					
TANs 4.27%	<u>3,100,000</u>	<u>-</u>	<u>-</u>	<u>3,100,000</u>	<u>620,000</u>
Other Long-term Obligations:					
Capital lease obligations	536,409	-	(536,409)	-	-
Compensated absences	<u>2,914,442</u>	<u>444,786</u>	<u>(332,358)</u>	<u>3,026,870</u>	<u>425,315</u>
Total Other Long-term Obligations	<u>3,450,851</u>	<u>444,786</u>	<u>(868,767)</u>	<u>3,026,870</u>	<u>425,315</u>
Total	<u>\$ 13,760,578</u>	<u>\$ 444,786</u>	<u>\$ (1,406,131)</u>	<u>\$ 12,799,233</u>	<u>\$ 1,600,679</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

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

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

*Compensated Absences:* Compensated absences included severance, vacation and health care benefits for retirees. Compensated absences will be paid from the fund from which the employee's salaries are paid.

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

Fiscal Year Ending June 30	General Obligation Bonds			Long-term loans		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 434,000	\$ 280,308	\$ 714,308	\$ 121,364	\$ 10,633	\$ 131,997
2008	449,000	262,742	711,742	126,364	6,498	132,862
2009	464,000	244,308	708,308	130,364	2,194	132,558
2010	390,000	226,445	616,445	26,363	-	26,363
2011	405,000	207,940	612,940	26,364	-	26,364
2012 - 2016	2,360,000	693,700	3,053,700	39,544	-	39,544
2017 - 2019	1,700,000	124,770	1,824,770	-	-	-
<b>Total</b>	<b>\$ 6,202,000</b>	<b>\$ 2,040,213</b>	<b>\$ 8,242,213</b>	<b>\$ 470,363</b>	<b>\$ 19,325</b>	<b>\$ 489,688</b>

Fiscal Year Ending June 30	Tax Anticipation Notes		
	Principal	Interest	Total
2007	\$ 620,000	\$ 119,133	\$ 739,133
2008	620,000	92,659	712,659
2009	620,000	66,185	686,185
2010	620,000	39,711	659,711
2011	620,000	13,237	633,237
<b>Total</b>	<b>\$ 3,100,000</b>	<b>\$ 330,925</b>	<b>\$ 3,430,925</b>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2006, are a voted debt margin of \$67,155,945 (with \$888,767 funds available in the debt service fund) and an unvoted debt margin of \$824,963.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 12 - NOTES PAYABLE**

During fiscal year 2006, the District issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the general fund. These notes were necessary for short-term borrowing by the District. Once funds were received the notes were repaid. The debt service fund (a nonmajor governmental fund) transferred \$2,037,479 to the general fund to repay principal and interest on the note.

Short-term debt activity for the year ended June 30, 2006 was as follows:

	<u>Balance at</u> <u>June 30, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at</u> <u>June 30, 2006</u>
Tax Anticipation Notes, 3.79%	\$ -	\$ 2,000,000	\$ (2,000,000)	\$ -

**NOTE 13 - RISK MANAGEMENT**

**A. General Risk**

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

	<u>Coverage</u>	<u>Deductible</u>
Property Insurance	\$ 115,782,261	\$ 5,000
Liability Insurance	1,000,000/5,000,000	0/0
Auto Insurance	5,000,000	1,000

**B. Health Insurance**

The claims liability of \$759,581 reported in the basic financial statements at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claim. A summary of changes in self-insurance claims for the years ended June 30, 2006 and June 30, 2005:

<u>Fiscal</u> <u>Year</u>	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2006	\$ 644,006	\$ 5,208,269	\$ (5,092,694)	\$ 759,581
2005	392,961	4,896,128	(4,645,083)	644,006

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 14 - PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$674,400, \$682,296, and \$602,168, respectively 38% has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2006, \$415,825 represents the unpaid portion for 2006.

**B. State Teachers Retirement System**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 14 - PENSION PLANS – (Continued)**

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$2,544,669, \$2,768,914, and \$2,462,854; 82% has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$448,623 represents the unpaid portion for 2006. Contributions to the DC and Combined Plans for fiscal year 2006 were \$28,233 made by the District and \$65,062 made by the plan members.

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

The 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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$195,744 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$228,066 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

	<u>General Fund</u>
Budget basis	\$ (431,058)
Net adjustment for revenue accruals	410,407
Net adjustment for expenditure accruals	(1,110,547)
Net adjustment for other sources/uses	574,572
Adjustment for encumbrances	<u>83,045</u>
GAAP basis	<u>\$ (473,581)</u>

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2006.

**B. Litigation**

The District is not a party to legal proceedings at June 30, 2006.

**NOTE 18 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2005	\$ (902,973)	\$ -
Current year set-aside requirement	773,111	773,111
Removal of designation	-	-
Qualifying disbursements	<u>(126,667)</u>	<u>(1,106,493)</u>
Total	<u>\$ (256,529)</u>	<u>\$ (333,382)</u>
Balance carried forward to FY 2007	<u>\$ (256,529)</u>	<u>\$ -</u>

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 19 - FINANCIAL CONDITION**

On April 8, 2005, the District was declared to be in fiscal watch by the Auditor of State's Office based upon a financial forecast review and fiscal watch analysis. Section 3316.03(A)(1), of the Ohio Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal watch if the Auditor of State determines that the District satisfies the following conditions: 1) an operating deficit has been certified for the current fiscal year by the Auditor of State, and the certified operating deficit exceeds eight percent of the school district's general fund revenue for the preceding fiscal year; and 2) a levy has not been passed by the voting electors that will raise enough additional revenue in the next succeeding fiscal year so that the first condition will not apply to the school district in the next succeeding fiscal year.

The analysis conducted of the District for the purpose of determining whether the District met the conditions outlined above disclosed the following: 1) the Auditor of State certified an operating deficit in the amount of \$4,714,000; and 2) the District had not passed a levy that will eliminate the first condition.

In order to address the fiscal watch status, the District passed a plan called "Project Recovery." The multi-phased plan consists of four themes: 1) Improved fiscal accountability and operations; 2) seeking additional revenues through local, state and federal sources; 3) effective utilization of facilities and staffing; and 4) significant budgetary reductions and cost saving efforts. Details about each phase can be found on the District's website ([www.cfalls.summit.k12.oh.us](http://www.cfalls.summit.k12.oh.us)). This plan included projected cost reductions of approximately \$1.8 million in fiscal year 2004-2005; \$7.1 million in fiscal year 2005-2006; and \$1.7 million in fiscal year 2006-2007. In addition, the District passed a 7.9 mill operating levy on May 5, 2005.

A performance audit was performed as of April 4, 2006, which noted the District has taken significant actions to address its financial condition, by reducing staff, closing two buildings and renegotiating collective bargaining agreements, in addition to other reductions. The performance audit suggested expanding the five-year forecast, reviewing the methodology for estimating real property tax collections, further reductions in staff and various policy changes.

As of January 5, 2007, the District has been removed from fiscal watch status by the Auditor of State.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY  
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
National School Breakfast Program	N/A	10.553	\$ 24,481		\$ 24,481	
National School Lunch Program	N/A	10.555	426,570		426,570	
Total Child Nutrition Cluster			451,051		451,051	
Food Donation Program	N/A	10.550		\$ 41,832		\$ 41,832
Total U.S. Department of Agriculture			451,051	41,832	451,051	41,832
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-06, 6B-EC-05	84.027	1,426,647		1,461,874	
Special Education - Preschool Grant	PG-S1-06	84.173	36,110		36,110	
Total Special Education Cluster			1,462,757		1,497,984	
Title I Grants to Local Educational Agencies	C1-S1-06	84.010	282,222		282,222	
High School Critical Transition	20-A0-05	84.048	10,000		200	
Innovative Education Program Strategies	C2-S1-06	84.298	18,973		23,814	
Safe and Drug Free Schools and Communities - State Grants	DR-S1-05, DR-S1-06	84.186	17,750		18,409	
English Language Acquisition Grant	T3-S1-06	84.365	24,824		24,824	
Technology Literacy Challenge Fund Grant	TJ-S1-05, TJ-S1-06	84.318	5,132		5,132	
State Improvement Grant	ST-S1-05, ST-S1-06	84.323	47,738		53,576	
Advanced Placement Program	AV-TF-04	84.330			416	
Improving Teacher Quality State Grant	TR-S1-06	84.367	168,097		168,097	
Total U.S. Department of Education			2,037,493		2,074,674	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (Medicaid)						
Community Alternative Funding System (CAFS)	N/A	93.778	37,032		37,032	
State Children's Health Insurance Program (SCHIP)	N/A	93.767	7,502		7,502	
Total U.S. Department of Health and Human Services			44,534		44,534	
Totals			<b>\$ 2,533,078</b>	<b>\$ 41,832</b>	<b>\$ 2,570,259</b>	<b>\$ 41,832</b>

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - FOOD DONATION PROGRAM**

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

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D - MEDICAL ASSISTANCE PROGRAM**

Cash receipts from the U.S. Department of Health and Human Services are commingled with local funds for the Medical Assistance Program. It is assumed federal monies are expended first.



# Mary Taylor, CPA

Auditor of State

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

Cuyahoga Falls City School District  
Summit County  
431 Stow Avenue  
Cuyahoga Falls, Ohio 44222

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Cuyahoga Falls City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 16, 2007, wherein we noted the District is in fiscal watch and restated net assets to implement GASB 47. 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 to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2006-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated February 16, 2007, we reported other matters involving internal control over financial reporting which 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2006-002. In a separate letter to the District's management dated February 16, 2007, we reported other matters related to noncompliance we deemed immaterial.

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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

February 16, 2007



# Mary Taylor, CPA

## Auditor of State

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

Cuyahoga Falls City School District  
Summit County  
431 Stow Avenue  
Cuyahoga Falls, Ohio 44222

To the Board of Education:

#### Compliance

We have audited the compliance of the Cuyahoga Falls City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. 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 each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Cuyahoga Falls City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006. In a separate letter to the District's management dated February 16, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

#### 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.

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.

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.

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

Mary Taylor, CPA  
Auditor of State

February 16, 2007

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

<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>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<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: CFDA #84.027 and 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

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

**FINDING NUMBER 2006-001**

**Capital Assets**

During the testing of Capital Assets, the following was noted:

- The District's fixed asset policy requires capitalization of individual assets and quantity purchases equal to or greater than the capitalization threshold amount; however, no clarification is made regarding the specific definition of a quantity purchase since quantity purchases of various computer hardware and software valued at \$165,168 were not reported while \$40,136 were capitalized. The District is not consistent in its determinations of computers and software to be capitalized. Additionally, quantity purchases that were capitalized by the District did not include the actual number of units purchased on the Fixed Asset listing.
- Numerous assets that are still in use by the District are included in the system as fully depreciated.
- The District's Fixed Asset system did not agree with the audited financial information included in the report. District officials could not determine the reason for the variances, resulting in proposed adjustments to the District's system of \$328,551 to the Assets and \$(33,864) to Accumulated Depreciation.
- The District capitalized several items improperly including: (1) a software license contract for Novell in the amount of \$10,472 that should not have been capitalized and was properly excluded at the time of GAAP Conversion, (2) Replacement costs for items damaged due to a fire in the Wood/Metal Shop in the amount of \$18,653, (3) Computers in the amount of \$21,739, purchased for the District via a lease that was not capitalized at the time of GAAP conversion and only partially capitalized on the District's records, (4) a Restroom Renovation project that was capitalized at the original contract amount of \$66,591 instead of the final amount paid of \$67,524, (5) a new hot water tank, a server upgrade, a printer, and land purchased that were all recorded at the amount of the original purchase order and not at the final cost to the District, resulting in an adjustment to reduce Capital Assets by \$29,072, and (6) the Terminal/Server project that was capitalized at the amount paid via a single check of \$13,324 as opposed to \$23,000 which represents the total cost.
- The District did not remove from their system the building and building improvements and related accumulated depreciation for the Bode Building that was sold during the audit period. The building and improvements removed were valued at \$1,231,677 and did not include roof repairs during the audit period of \$5,500. The related accumulated depreciation removed was valued at \$982,582 and did not include \$787 for the roof repair. Therefore total assets of \$1,237,177 and accumulated depreciation of \$983,369 were improperly retained in the District's fixed asset listing.
- The District does not track land purchases in its accounting system with other capital assets.
- The District did not properly calculate and record accumulated depreciation or depreciation expense for asset additions during the current audit period, overstating the accumulated depreciation by approximately \$30,053.75 and understating the depreciation expense by \$1,987.68.

**FINDING NUMBER 2006-001 (Continued)**

To help improve the accountability and reporting of the capital assets, the District should:

- Revise the fixed asset policy to include a specified listing of quantity purchase items and computers or software which the District elects to capitalize and include the number of units on the fixed asset listing for quantity purchases.
- Reassess the life of the fully depreciated assets and revise the depreciation if these assets are still in use.
- Update its fixed asset system with the audit adjustments proposed and verify that the system then matches the audited financial statements.
- Review supporting documentation related to possible assets to be capitalized in order to determine that the asset meets the District's criteria as outlined in the related policy, document on the supporting documentation that an asset has been capitalized and when it was entered into the fixed asset system, and review supporting documentation to help ensure that assets are capitalized at the correct cost.
- Review the year end asset reports, noting that all assets that were disposed of during the audit period are removed from the asset listing.
- Input into the system all purchases that meet the District's capitalization criteria, including land purchases.
- The District should review its software and depreciation settings to ensure that the correct amount of depreciation is calculated and recorded for capital assets of the District.

**Officials' Response:** A valuation firm will be hired to reassess our fixed assets and their locations. The appropriate staff will be trained on fixed asset depreciation and reporting.

**FINDING NUMBER 2006-002**

**Ohio Rev. Code 5705.41(B)** states "No subdivision or taxing unit is to expend money unless it has been appropriated." The District did not make any appropriations for the Self Insurance Internal Service Fund (024) until the final appropriations measure was passed on 6/28/06 via Resolution 06-145. The District had expensed \$5,034,996 from that fund as of May 31, 2006, none of which was appropriated at that time.

The District should review appropriations to ensure that amounts are properly appropriated before related expenses are made.

**Officials' Response:** The Self insurance fund (Fund 024) is now being appropriated.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	Ohio Rev. Code Section 5705.39	Yes	
2005-002	Ohio Rev. Code Section 5705.10	No	Partially Corrected. See Management Letter



Mary Taylor, CPA  
Auditor of State

CUYAHOGA FALLS CITY SCHOOL DISTRICT  
SUMMIT COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 27, 2007