

Mary Taylor, CPA
Auditor of State

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

Except as discussed in the following paragraph, 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.

Insurance claims reported in the Self Insurance Fund (an internal service fund, included in the governmental activities and as remaining fund information) are processed by a service organization independent of the District. The service organization did not provide us with information we requested regarding the design or proper operation of its internal controls. We were therefore unable to satisfy ourselves as to the proper processing of dental and vision insurance claims expenses and liabilities. Those claims represent 0.3% of accrued liabilities reported within governmental activities, and 8% of the expenses and 16% of the liabilities reported in the remaining fund information.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to examine certain information regarding dental and vision claims reported within governmental activities and remaining fund information as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Olmsted Falls City School District, Cuyahoga County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As stated in Note 3, the District restated fund balances for Governmental Funds as of June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 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.



Mary Taylor, CPA
Auditor of State

April 9, 2008

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

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

Financial Highlights

Key financial highlights for 2007 are as follows:

- Revenues for governmental activities totaled \$37,574,283 in 2007. Of this total \$34,397,097, or 91.5 percent, consisted of general revenues while program revenues accounted for the balance of \$3,177,186 or 8.5 percent.
- Total liabilities of governmental activities increased by 1,749,648. This is primarily due to an increase in deferred revenue.
- Program expenses totaled \$37,211,576. Instructional expenses made up \$21,074,783 or 56.6 percent of this total while support services accounted for \$12,393,217 or 33.3 percent.
- Outstanding debt decreased by \$916,966 for current year accretion and debt payments. By the end of the fiscal year two debt issues were paid off.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2007?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all *assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

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

The School District as a Whole

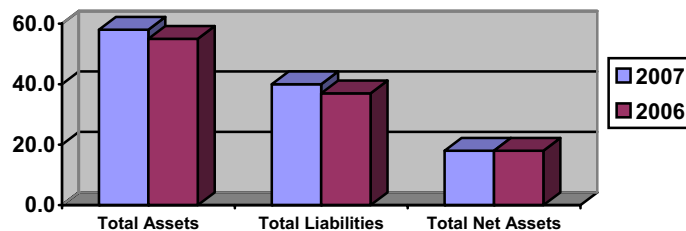
You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006:

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 1
 Net Assets
 Governmental Activities

| | 2007 | 2006 | Change |
|---|---------------------|---------------------|------------------|
| Assets | | | |
| Current and Other Assets | \$36,033,277 | \$33,151,742 | \$2,881,535 |
| Capital Assets, Net | 20,822,773 | 21,591,953 | (769,180) |
| <i>Total Assets</i> | <u>56,856,050</u> | <u>54,743,695</u> | <u>2,112,355</u> |
| Liabilities | | | |
| Current and Other Liabilities | 24,550,687 | 21,858,838 | 2,691,849 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 1,964,473 | 2,463,216 | (498,743) |
| Due in More than One Year | 12,276,220 | 12,719,678 | (443,458) |
| <i>Total Liabilities</i> | <u>38,791,380</u> | <u>37,041,732</u> | <u>1,749,648</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Debt | 12,286,267 | 12,093,068 | 193,199 |
| Restricted: | | | |
| Capital Projects | 697,285 | 566,352 | 130,933 |
| Debt Service | 2,919,664 | 2,341,115 | 578,549 |
| Food Service | 168,379 | 104,539 | 63,840 |
| School Supplies | 41,110 | 33,632 | 7,478 |
| Extracurricular Activities | 231,002 | 188,428 | 42,574 |
| Local and State Grants | 77,222 | 89,329 | (12,107) |
| Federal Grants | 392 | 23,762 | (23,370) |
| Set Asides | 223,918 | 223,918 | 0 |
| Unrestricted | 1,419,431 | 2,037,820 | (618,389) |
| <i>Total Net Assets</i> | <u>\$18,064,670</u> | <u>\$17,701,963</u> | <u>\$362,707</u> |

Governmental Activities
 (in Millions)



Total assets increased by \$2,112,355. This is primarily due to an increase in cash and cash equivalents and property taxes receivables netted against a decrease in the settlement receivable.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Current liabilities increased by \$2,691,849 over fiscal year 2006 primarily due to the increase in deferred revenue related to the increase in property taxes receivable. The School District passed a bond issuance levy in May 2007. Collections begin in calendar year 2008.

Long-term liabilities decreased by \$942,201 mainly due to current year debt payments.

Table 2 shows the change in net assets for fiscal year 2007. A comparative analysis of government-wide data is presented.

Table 2
 Governmental Activities

| | 2007 | 2006 | Change |
|--|---------------------|---------------------|------------------|
| Revenues | | | |
| <i>Program Revenues</i> | | | |
| Charges for Services and Sales | \$1,791,102 | \$1,694,502 | \$96,600 |
| Operating Grants, Contributions and Interest | 1,340,447 | 1,217,143 | 123,304 |
| Capital Grants and Contributions | 45,637 | 0 | 45,637 |
| <i>Total Program Revenues</i> | <u>3,177,186</u> | <u>2,911,645</u> | <u>265,541</u> |
| General Revenue: | | | |
| Property Taxes | 19,401,572 | 19,189,868 | 211,704 |
| Grants and Entitlements | 14,020,071 | 13,585,522 | 434,549 |
| Investment Earnings | 795,834 | 548,748 | 247,086 |
| Miscellaneous | 179,620 | 573,993 | (394,373) |
| <i>Total General Revenues</i> | <u>34,397,097</u> | <u>33,898,131</u> | <u>498,966</u> |
| Total Revenues | <u>37,574,283</u> | <u>36,809,776</u> | <u>764,507</u> |
| Program Expenses | | | |
| Instruction | 21,074,783 | 19,570,732 | 1,504,051 |
| Support Services: | | | |
| Pupil and Instructional Staff | 3,264,448 | 3,440,671 | (176,223) |
| Board of Education, Administration, Fiscal and Business | 3,405,957 | 3,393,109 | 12,848 |
| Operation and Maintenance of Plant | 3,401,610 | 3,422,221 | (20,611) |
| Pupil Transportation | 2,049,951 | 2,008,534 | 41,417 |
| Central | 271,251 | 273,636 | (2,385) |
| Operation of Non Instructional Services: | | | |
| Food Service Operations | 1,123,225 | 999,237 | 123,988 |
| Other Non Instructional Services | 208,910 | 173,623 | 35,287 |
| Extracurricular Activities | 1,485,469 | 1,541,182 | (55,713) |
| Interest and Fiscal Charges | 925,972 | 647,944 | 278,028 |
| Total Program Expenses | <u>37,211,576</u> | <u>35,470,889</u> | <u>1,740,687</u> |
| Increase in Net Assets | 362,707 | 1,338,887 | (976,180) |
| <i>Net Assets Beginning of Year</i> | <u>17,701,963</u> | <u>16,363,076</u> | <u>1,338,887</u> |
| <i>Net Assets End of Year</i> | <u>\$18,064,670</u> | <u>\$17,701,963</u> | <u>\$362,707</u> |

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Program revenues increased by \$265,541, and were primarily due to the School District receiving additional operating grant monies during fiscal year 2007.

General revenues increased by \$498,966, mainly due to an increase in homestead and rollback and investment earnings.

Expenses increased \$1,740,687. This is mainly due to a \$1,540,051 increase in instructional expenses, a decrease of \$176,233 in pupil and instructional staff and an increase of \$278,028 in interest and fiscal charges. The increase in employee salaries is the primary reason for the increase in expenses.

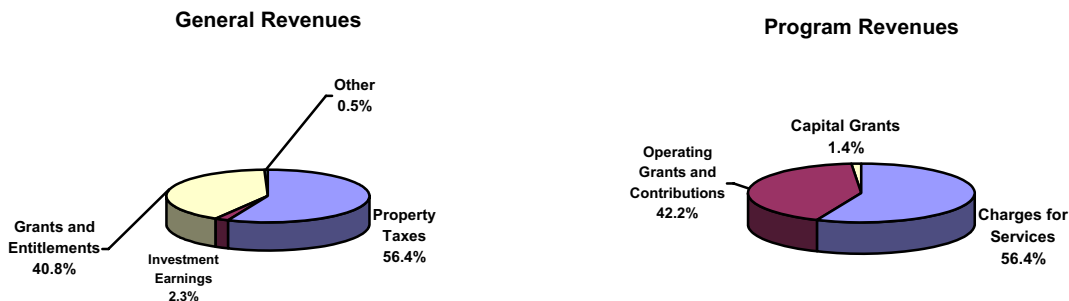
Governmental Activities

The vast majority of revenue supporting all Governmental Activities is general revenue. General revenue totaled \$34,397,097 or 91.5 percent of the total revenue. The two significant portions of the general revenues are the local property taxes and state foundation revenues.

Property taxes made up 56.4 percent of general revenues and made up 51.6 percent of all revenues received during fiscal year 2007 for the School District. State foundation monies and unrestricted grants and entitlements accounted for 40.8 percent of general revenues with interest and other revenues accounting for the remaining 2.8 percent.

Program revenues consist of charges for services, operating grants and capital grants contributions and interest related to specific activities and programs of the School District. Program revenues of \$3,177,186 represented 8.4 percent of total governmental revenues.

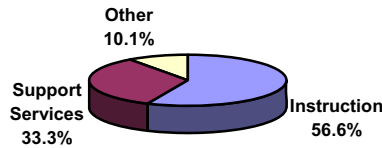
The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Although the School District relies heavily upon local property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



56.6 percent of the School District's budget is used to fund instructional expenses. Additional supporting services for pupils, instructional staff and business operations encompass an additional 33.3 percent. The remaining 10.1 percent of program expenses is used for other obligations of the School District such as non-instructional services, food service program, extracurricular activities and interest and fiscal charges.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Program Expenses



The increase in expenses is due primarily to expenses related to the instruction of students. This includes pay raises, increases in benefits associated with salaries, severance payments and cost of materials.

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

Table 3
 Governmental Activities

| | Total Cost of Services 2007 | Net Cost of Services 2007 | Total Cost of Services 2006 | Net Cost of Services 2006 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction | \$21,074,783 | (\$20,665,283) | \$19,570,732 | (\$19,199,289) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 3,264,448 | (2,588,511) | 3,440,671 | (2,768,935) |
| Board of Education, Administration, Fiscal and Business | 3,405,957 | (3,328,367) | 3,393,109 | (3,334,971) |
| Operation and Maintenance of Plant | 3,401,610 | (3,383,040) | 3,422,221 | (3,404,333) |
| Pupil Transportation | 2,049,951 | (1,812,077) | 2,008,534 | (1,835,017) |
| Central | 271,251 | (254,831) | 273,636 | (259,956) |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 1,123,225 | 20,145 | 999,237 | 182,556 |
| Other Non-Instructional Services | 208,910 | (45,002) | 173,623 | (173,623) |
| Extracurricular Activities | 1,485,469 | (1,051,452) | 1,541,182 | (1,117,732) |
| Interest and Fiscal Charges | 925,972 | (925,972) | 647,945 | (647,945) |
| Total | \$37,211,576 | (\$34,034,390) | \$35,470,890 | (\$32,559,245) |

The dependence upon general revenues for governmental activities is apparent. Over 52.1 percent of total expenses are supported through taxes. Grant and entitlements not restricted to specific programs support 37.7 percent. Program revenues only account for 8.5 percent of all governmental expenses. The community, as a whole, is the primary support for Olmsted Falls City School District.

The School District's Funds

Information about the School District's major funds starts on Page 15. These governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$38,075,922 and expenditures of \$37,431,899. The net change in fund balance for the general fund

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

was an increase of \$243,554. The bond retirement debt service fund had a net change in fund balance of \$345,304. Overall net change in fund balance was an increase of \$755,805. The increase is primarily due to the revenues of the School District increasing at a greater rate than expenditures. The ending fund balance for governmental funds was \$9,589,644.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the School District amended its general fund budget numerous times, none significant. The School District uses site-based budgeting. The budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was \$33,651,364; this was more than the original budget estimates of \$31,768,719. The final budget was \$180,998 less than actual revenues, due to the School District receiving more taxes and intergovernmental revenues than anticipated. The final budget basis expenditure estimate was \$34,093,864; this was more than the original budget estimate of the \$33,545,818. The final budget was \$122,397 more than actual expenditures. This was due to the School District incurring less in regular instruction expenditures than anticipated. The School District's unencumbered ending cash balance totaled \$7,746,962.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$20,822,773 invested in land, buildings and improvements, furniture and equipment and vehicles. Table 4 shows fiscal year 2006 values compared to fiscal year 2007.

Table 4
 Capital Assets at June 30
 Governmental Activities

| | 2007 | 2006 |
|----------------------------|--------------|--------------|
| Land | \$2,979,985 | \$2,979,985 |
| Buildings and Improvements | 11,921,520 | 12,436,211 |
| Furniture and Equipment | 3,449,393 | 3,642,492 |
| Vehicles | 2,471,875 | 2,533,265 |
| Totals | \$20,822,773 | \$21,591,953 |

All capital assets, except land, are reported net of depreciation. The School District had \$489,331 in capital asset additions for equipment, furniture and buses purchased during the fiscal year. These were offset by the current year depreciation to show an overall decrease in capital assets. The School District continued its ongoing commitment to maintaining and improving its capital assets. More detailed information is presented in Note 10 of the notes to the basic financial statements.

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Debt

At June 30, 2007, the School District had \$10,701,375 in bonds and notes outstanding. Table 5 below summarizes the School District's bonds and notes outstanding.

Table 5
Outstanding Debt at Year End
Governmental Activities

| | 2007 | 2006 |
|--|---------------------|---------------------|
| 1997 School Improvement Refunding Bonds | \$5,579,642 | \$5,956,592 |
| 1998 Various Purpose Improvement Bonds | 0 | 35,000 |
| 2002 Energy Conservation Improvement Bonds | 242,010 | 302,513 |
| 2003 Classroom Facilities Refunding: | | |
| Bonds | 4,796,902 | 5,229,583 |
| Premium | 409,582 | 468,094 |
| Deferred Amount on Refunding | (326,761) | (373,441) |
| Totals | \$10,701,375 | \$11,618,341 |

At June 30, 2007, the School District's overall legal debt margin was \$39,767,923 with an unvoted debt margin of \$499,903. The debt is well within permissible limits. The School District maintains an A bond rating from Standard and Poors. More detailed information is presented in Note 16 of the notes to the basic financial statements.

Current Financial Related Activities

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

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

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

In May 2007, residents of the Olmsted communities passed a 2 Mill Bond Issue to construct a new building in the School District as well as to make repairs and renovations to existing buildings. The 2 Mill Bond Issue will generate approximately \$17,000,000 in funding for Olmsted Falls School District. Approximately \$15,000,000 will go toward the construction of a new intermediate school in the School

Olmsted Falls City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

District to serve students in grades 4 and 5 and alleviate space issues at the School District's existing primary school. With the pressing space issues, especially at the Pre-K to 5th grade levels, the School District has embarked on an aggressive building schedule to meet the goal of opening the new intermediate building by fall 2009. Groundbreaking for the new intermediate school is scheduled for late spring or early summer 2008. The remaining approximately \$2,000,000 will be used for select repair and renovation projects at existing buildings.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dale Weber, Treasurer at Olmsted Falls City School District, 26937 Bagley Road, Olmsted Falls, Ohio 44138; or by e-mail at dweber@ofcs.net.

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Olmsted Falls City School District

Statement of Net Assets

June 30, 2007

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$13,589,384 |
| Accrued Interest Receivable | 4,505 |
| Accounts Receivable | 709 |
| Intergovernmental Receivable | 142,905 |
| Inventory Held for Resale | 9,958 |
| Materials and Supplies Inventory | 195,769 |
| Property Taxes Receivable | 22,007,239 |
| Deferred Charges | 82,808 |
| Nondepreciable Capital Assets | 2,979,985 |
| Depreciable Capital Assets, Net | <u>17,842,788</u> |
| <i>Total Assets</i> | <u>56,856,050</u> |
| Liabilities | |
| Accounts Payable | 224,389 |
| Accrued Wages and Benefits | 3,498,299 |
| Intergovernmental Payable | 1,092,131 |
| Accrued Interest Payable | 321,155 |
| Matured Compensated Absences Payable | 270,573 |
| Early Retirement Incentive Payable | 255,331 |
| Deferred Revenue | 18,764,381 |
| Claims Payable | 124,428 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,964,473 |
| Due In More Than One Year | <u>12,276,220</u> |
| <i>Total Liabilities</i> | <u>38,791,380</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 12,286,267 |
| Restricted for: | |
| Capital Projects | 697,285 |
| Debt Service | 2,919,664 |
| Food Service | 168,379 |
| School Supplies | 41,110 |
| Extracurricular Activities | 231,002 |
| Local and State Grants | 77,222 |
| Federal Grants | 392 |
| Set Asides | 223,918 |
| Unrestricted | <u>1,419,431</u> |
| <i>Total Net Assets</i> | <u><u>\$18,064,670</u></u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

| | Program Revenues | | | | Net (Expense) |
|--|---------------------|-----------------------------------|--|-------------------------------------|--------------------------|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Revenue and |
| | | | | | Changes in Net Assets |
| Governmental Activities | | | | | |
| Instruction: | | | | | |
| Regular | \$16,811,248 | \$239,784 | \$51,460 | \$45,637 | (\$16,474,367) |
| Special | 3,475,450 | 14,512 | 54,896 | 0 | (3,406,042) |
| Vocational | 756,826 | 3,198 | 0 | 0 | (753,628) |
| Adult/Continuing | 31,259 | 13 | 0 | 0 | (31,246) |
| Support Services: | | | | | |
| Pupil | 1,487,209 | 4,599 | 387,608 | 0 | (1,095,002) |
| Instructional Staff | 1,777,239 | 6,431 | 277,299 | 0 | (1,493,509) |
| Board of Education | 196,325 | 832 | 0 | 0 | (195,493) |
| Administration | 2,428,456 | 10,038 | 63,426 | 0 | (2,354,992) |
| Fiscal | 778,546 | 3,294 | 0 | 0 | (775,252) |
| Business | 2,630 | 0 | 0 | 0 | (2,630) |
| Operation and Maintenance of Plant | 3,401,610 | 18,570 | 0 | 0 | (3,383,040) |
| Pupil Transportation | 2,049,951 | 237,874 | 0 | 0 | (1,812,077) |
| Central | 271,251 | 1,120 | 15,300 | 0 | (254,831) |
| Operation of Non-Instructional Services: | | | | | |
| Food Service Operations | 1,123,225 | 862,830 | 280,540 | 0 | 20,145 |
| Other Non-Instructional Services | 208,910 | 85 | 163,823 | 0 | (45,002) |
| Extracurricular Activities | 1,485,469 | 387,922 | 46,095 | 0 | (1,051,452) |
| Interest and Fiscal Charges | 925,972 | 0 | 0 | 0 | (925,972) |
| Totals | <u>\$37,211,576</u> | <u>\$1,791,102</u> | <u>\$1,340,447</u> | <u>\$45,637</u> | <u>(\$34,034,390)</u> |

General Revenues

| | |
|--|---------------------|
| Property Taxes Levied for: | |
| General Purposes | 17,576,903 |
| Debt Service | 1,616,605 |
| Capital Projects | 208,064 |
| Grants and Entitlements not Restricted to Specific Programs | 14,020,071 |
| Investment Earnings | 795,834 |
| Miscellaneous | 179,620 |
| Total General Revenues | <u>34,397,097</u> |
| Change in Net Assets | 362,707 |
| Net Assets Beginning of Year | <u>17,701,963</u> |
| Net Assets End of Year | <u>\$18,064,670</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District

Balance Sheet

Governmental Funds

June 30, 2007

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$8,639,325 | \$2,978,661 | \$1,400,104 | \$13,018,090 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 223,918 | 0 | 0 | 223,918 |
| Accrued Interest Receivable | 4,505 | 0 | 0 | 4,505 |
| Accounts Receivable | 709 | 0 | 0 | 709 |
| Intergovernmental Receivable | 5,031 | 0 | 137,874 | 142,905 |
| Interfund Receivable | 34,645 | 0 | 0 | 34,645 |
| Inventory Held for Resale | 0 | 0 | 9,958 | 9,958 |
| Materials and Supplies Inventory | 195,115 | 0 | 654 | 195,769 |
| Property Taxes Receivable | 19,591,891 | 2,200,780 | 214,568 | 22,007,239 |
| <i>Total Assets</i> | <u>\$28,695,139</u> | <u>\$5,179,441</u> | <u>\$1,763,158</u> | <u>\$35,637,738</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$151,887 | \$0 | \$72,502 | \$224,389 |
| Accrued Wages and Benefits | 3,318,605 | 0 | 179,694 | 3,498,299 |
| Intergovernmental Payable | 1,011,873 | 0 | 80,258 | 1,092,131 |
| Interfund Payable | 0 | 0 | 34,645 | 34,645 |
| Matured Compensated Absences Payable | 270,573 | 0 | 0 | 270,573 |
| Early Retirement Incentive Payable | 255,331 | 0 | 0 | 255,331 |
| Deferred Revenue | 18,385,625 | 2,086,546 | 200,555 | 20,672,726 |
| <i>Total Liabilities</i> | <u>23,393,894</u> | <u>2,086,546</u> | <u>567,654</u> | <u>26,048,094</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 946,730 | 0 | 101,467 | 1,048,197 |
| Reserved for Property Taxes | 1,206,266 | 114,234 | 14,013 | 1,334,513 |
| Reserved for Budget Stabilization | 223,918 | 0 | 0 | 223,918 |
| Unreserved, Undesignated | | | | |
| Reported in: | | | | |
| General Fund | 2,924,331 | 0 | 0 | 2,924,331 |
| Special Revenue Funds | 0 | 0 | 458,904 | 458,904 |
| Debt Service Fund | 0 | 2,978,661 | 0 | 2,978,661 |
| Capital Projects Funds | 0 | 0 | 621,120 | 621,120 |
| <i>Total Fund Balances</i> | <u>5,301,245</u> | <u>3,092,895</u> | <u>1,195,504</u> | <u>9,589,644</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$28,695,139</u> | <u>\$5,179,441</u> | <u>\$1,763,158</u> | <u>\$35,637,738</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2007*

Total Governmental Fund Balances \$9,589,644

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

Capital assets used in governmental activities are not financial resources and
 therefore are not reported in the funds. 20,822,773

Other long-term assets are not available to pay for current-period expenditures
 and therefore are deferred in the funds:
 Delinquent Property Taxes 1,908,345

Issuance costs are reported as an expenditure when paid in the governmental
 funds, but is deferred and amortized on the statement of activities. This is
 the unamortized issuance costs on bonds. 82,808

An internal service fund is used by management to charge the cost of
 insurance to individual funds. The assets and liabilities of the internal service
 fund are included in governmental activities in the statement of activities. 222,948

In the statement of activities, interest is accrued on outstanding bonds, where
 as in governmental funds, an interest expenditure is reported when due. (321,155)

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

| | |
|-----------------------------------|--------------|
| Energy Conservation Bonds | (242,010) |
| Serial Bonds | (4,250,000) |
| Capital Appreciation Bonds | (6,126,544) |
| Bond Premium | (409,582) |
| Loss on Refunding | 326,761 |
| Capital Lease Obligations Payable | (512,975) |
| Compensated Absences | (3,026,343) |
| | (14,240,693) |

Total (14,240,693)

Net Assets of Governmental Activities \$18,064,670

Olmsted Falls City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$17,694,065 | \$1,540,575 | \$198,571 | \$19,433,211 |
| Intergovernmental | 13,852,747 | 167,324 | 1,286,954 | 15,307,025 |
| Interest | 759,533 | 0 | 36,301 | 795,834 |
| Tuition and Fees | 138,323 | 0 | 172,400 | 310,723 |
| Rentals | 4,311 | 0 | 0 | 4,311 |
| Extracurricular Activities | 0 | 0 | 383,581 | 383,581 |
| Contributions and Donations | 0 | 0 | 99,130 | 99,130 |
| Charges for Services | 229,658 | 0 | 862,829 | 1,092,487 |
| Settlement Payments | 470,000 | 0 | 0 | 470,000 |
| Miscellaneous | 97,565 | 0 | 82,055 | 179,620 |
| <i>Total Revenues</i> | <u>33,246,202</u> | <u>1,707,899</u> | <u>3,121,821</u> | <u>38,075,922</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 15,782,967 | 0 | 222,924 | 16,005,891 |
| Special | 3,380,681 | 0 | 73,922 | 3,454,603 |
| Vocational | 736,013 | 0 | 1,000 | 737,013 |
| Adult/Continuing | 31,259 | 0 | 0 | 31,259 |
| Support Services: | | | | |
| Pupil | 1,105,069 | 0 | 400,555 | 1,505,624 |
| Instructional Staff | 1,441,423 | 0 | 277,139 | 1,718,562 |
| Board of Education | 196,325 | 0 | 0 | 196,325 |
| Administration | 2,432,016 | 0 | 67,187 | 2,499,203 |
| Fiscal | 772,559 | 672 | 0 | 773,231 |
| Business | 0 | 0 | 2,630 | 2,630 |
| Operation and Maintenance of Plant | 3,304,149 | 0 | 0 | 3,304,149 |
| Pupil Transportation | 1,975,226 | 0 | 0 | 1,975,226 |
| Central | 264,352 | 0 | 3,300 | 267,652 |
| Operation of Non-instructional Services: | | | | |
| Food Service Operations | 9,791 | 0 | 218,187 | 227,978 |
| Other Non-instructional Services | 10,326 | 0 | 1,077,819 | 1,088,145 |
| Extracurricular Activities | 1,024,778 | 0 | 459,049 | 1,483,827 |
| Capital Outlay | 134,682 | 0 | 151,162 | 285,844 |
| Debt Service: | | | | |
| Principal Retirement | 450,011 | 1,175,000 | 0 | 1,625,011 |
| Interest and Fiscal Charges | 62,803 | 186,923 | 0 | 249,726 |
| <i>Total Expenditures</i> | <u>33,114,430</u> | <u>1,362,595</u> | <u>2,954,874</u> | <u>37,431,899</u> |
| <i>Excess of Revenues Over Expenditures</i> | 131,772 | 345,304 | 166,947 | 644,023 |
| Other Financing Sources | | | | |
| Inception of Capital Lease | 111,782 | 0 | 0 | 111,782 |
| <i>Net Change in Fund Balances</i> | 243,554 | 345,304 | 166,947 | 755,805 |
| <i>Fund Balances Beginning of Year - Restated (See Note 3)</i> | <u>5,057,691</u> | <u>2,747,591</u> | <u>1,028,557</u> | <u>8,833,839</u> |
| <i>Fund Balances End of Year</i> | <u>\$5,301,245</u> | <u>\$3,092,895</u> | <u>\$1,195,504</u> | <u>\$9,589,644</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For Fiscal Year Ended June 30, 2007*

| | | |
|--|--------------------|-----------------------------|
| Net Change in Fund Balances -Total Governmental Funds | | \$755,805 |
| <i>Amounts reported for governmental activities in the statement of activities are different because</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | | |
| Capital Asset Additions | 489,331 | |
| Current Year Depreciation | <u>(1,230,305)</u> | |
| Total | | (740,974) |
| 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. | | |
| | | (28,206) |
| Delinquent property taxes and grants revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Settlements revenues are reported as revenue in the funds but not on the statement of activities. | | |
| Delinquent Property Taxes | (31,639) | |
| Settlement | <u>(470,000)</u> | |
| Total | | (501,639) |
| Other financing sources in the governmental funds increased long-term liabilities in the statement of net assets. | | |
| Inception of Capital Leases | | (111,782) |
| Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets | | |
| | | 1,625,011 |
| In the statement of activities, interest is accrued on outstanding bonds, bond accretion, bond premium, bond issuance costs and loss on refunding are amortized over the term of the bonds, whereas in governmental funds an interest expenditure is reported when due and premiums, issuance costs and loss on refunding are reported when the bonds are issued. | | |
| Accrued Interest | (310,879) | |
| Annual Accretion | (365,369) | |
| Amortization of Issuance Costs | (11,830) | |
| Amortization of Loss on Refunding | (46,680) | |
| Amortization of Premium on Bonds | <u>58,512</u> | |
| Total | | (676,246) |
| Some expenses reported in the statement of activities, such as compensated absences and contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| Compensated Absences | | (217,491) |
| The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities. | | |
| | | <u>258,229</u> |
| <i>Change in Net Assets of Governmental Activities</i> | | <u><u>\$362,707</u></u> |

Olmsted Falls City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Property Taxes | \$17,117,663 | \$18,132,073 | \$18,229,598 | \$97,525 |
| Intergovernmental | 13,029,996 | 13,802,165 | 13,876,402 | 74,237 |
| Interest | 736,901 | 780,571 | 784,769 | 4,198 |
| Tuition and Fees | 345,583 | 366,062 | 138,373 | (227,689) |
| Rentals | 4,048 | 4,288 | 4,311 | 23 |
| Charges for Services | 0 | 0 | 229,658 | 229,658 |
| Settlement Payments | 470,000 | 470,000 | 470,000 | 0 |
| Miscellaneous | 64,528 | 96,205 | 99,251 | 3,046 |
| <i>Total Revenues</i> | <u>31,768,719</u> | <u>33,651,364</u> | <u>33,832,362</u> | <u>180,998</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 27,503,852 | 28,051,898 | 16,094,414 | 11,957,484 |
| Special | 824,415 | 824,415 | 3,376,486 | (2,552,071) |
| Vocational | 196,788 | 196,788 | 726,482 | (529,694) |
| Adult/Continuing | 0 | 0 | 31,433 | (31,433) |
| Support Services: | | | | |
| Pupil | 209,611 | 209,611 | 1,147,627 | (938,016) |
| Instructional Staff | 79,467 | 79,467 | 1,439,238 | (1,359,771) |
| Board of Education | 307,734 | 307,734 | 236,059 | 71,675 |
| Administration | 426,813 | 426,813 | 2,484,566 | (2,057,753) |
| Fiscal | 505,892 | 505,892 | 792,177 | (286,285) |
| Operation and Maintenance of Plant | 2,031,986 | 2,031,986 | 3,641,398 | (1,609,412) |
| Pupil Transportation | 766,641 | 766,641 | 2,293,856 | (1,527,215) |
| Central | 370,869 | 370,869 | 334,084 | 36,785 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 2,488 | 2,488 | 11,122 | (8,634) |
| Other Non-Instructional Services | 0 | 0 | 9,656 | (9,656) |
| Extracurricular Activities | 14,978 | 14,978 | 1,026,907 | (1,011,929) |
| Capital Outlay | 191,284 | 191,284 | 212,992 | (21,708) |
| Debt Service: | | | | |
| Principal Retirement | 96,000 | 96,000 | 95,503 | 497 |
| Interest and Fiscal Charges | 17,000 | 17,000 | 17,467 | (467) |
| <i>Total Expenditures</i> | <u>33,545,818</u> | <u>34,093,864</u> | <u>33,971,467</u> | <u>122,397</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(1,777,099)</u> | <u>(442,500)</u> | <u>(139,105)</u> | <u>303,395</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 93,104 | 98,622 | 99,152 | 530 |
| Advances Out | 0 | 0 | (106,470) | (106,470) |
| <i>Total Other Financing Sources (Uses)</i> | <u>93,104</u> | <u>98,622</u> | <u>(7,318)</u> | <u>(105,940)</u> |
| <i>Net Change in Fund Balance</i> | <u>(1,683,995)</u> | <u>(343,878)</u> | <u>(146,423)</u> | <u>197,455</u> |
| <i>Fund Balance Beginning of Year</i> | 6,940,023 | 6,940,023 | 6,940,023 | 0 |
| <i>Prior Year Encumbrances Appropriated</i> | <u>953,362</u> | <u>953,362</u> | <u>953,362</u> | <u>0</u> |
| <i>Fund Balance End of Year</i> | <u>\$6,209,390</u> | <u>\$7,549,507</u> | <u>\$7,746,962</u> | <u>\$197,455</u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2007

| | <u>Self Insurance</u> |
|--|---------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$347,376 |
| Liabilities | |
| Claims Payable | <u>124,428</u> |
| Net Assets | |
| Unrestricted | <u><u>\$222,948</u></u> |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007*

| | Self Insurance |
|---|-------------------|
| Operating Revenues | |
| Charges for Services | \$3,618,133 |
| Operating Expenses | |
| Fringe Benefits | 2,879,762 |
| Claims | 480,142 |
| <i>Total Operating Expenses</i> | 3,359,904 |
| <i>Operating Income</i> | 258,229 |
| <i>Net Assets (Deficit) Beginning of Year</i> | (35,281) |
| <i>Net Assets End of Year</i> | \$222,948 |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

| | Self Insurance |
|--|-------------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Transactions with Other Funds | \$3,618,133 |
| Cash Payments for Goods and Services | (2,879,762) |
| Cash Payments for Claims | (387,855) |
| <i>Net Cash Provided by Operating Activities</i> | 350,516 |
| Cash Flows from Noncapital Financing Activities | |
| Advances Out | (3,737) |
| <i>Net Increase in Cash and Cash Equivalents</i> | 346,779 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 597 |
| <i>Cash and Cash Equivalents End of Year</i> | \$347,376 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income | \$258,229 |
| Adjustments: | |
| Increase in Claims Payable | 92,287 |
| <i>Net Cash Provided by Operating Activities</i> | \$350,516 |

See accompanying notes to the basic financial statements

Olmsted Falls City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

| | <u>Agency</u> |
|--|-----------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$93,979</u> |
| Liabilities | |
| Due to Students | <u>\$93,979</u> |

See accompanying notes to the basic financial statements

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Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 1 - Description of the School District and Reporting Entity

The Olmsted Falls City School District (School District) operates under a locally elected five member Board and provides educational services as mandated by State and federal agencies. The School District includes the City of Olmsted Falls, a small portion of the City of Berea, Olmsted Township and a small portion of Columbia Township. All of the communities served are located in Cuyahoga County with the exception of Columbia Township, which is located in Lorain County. It is staffed by 155 non-certified personnel, 229 certified teaching personnel and 16 administrative employees to provide services to 3,663 students and other community members. The School District operates one primary school (Pre K-3), one intermediate school (4-5), one middle school (6-8), and one high school (9-12).

Reporting Entity

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

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

The School District participates in three jointly governed organizations, one insurance purchasing pool and one risk sharing pool. These organizations are the Lake Erie Educational Computer Association (LEECA), the Ohio Schools Council Association, the Polaris Career Center, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Note 18, Note 19 and Note 20 of the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

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

B. Fund Accounting

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

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

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

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

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

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

C. Measurement Focus

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

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

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

E. Budgetary Data

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

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Notes, and STAROhio. Investments are reported at fair value which is based on quoted market prices.

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$759,533 which includes \$244,041 assigned from other School District funds.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

G. Restricted Assets

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

H. Inventory

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

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

I. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of capital assets by back trending (i.e., estimating the current replacement cost of the capital asset to be capitalized and using an appropriate price-level index to deflate the cost of the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 15-40 years |
| Furniture and Equipment | 5-15 years |
| Vehicles | 5-10 years |
| Textbooks | 5-10 years |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

J. Bond Issuance Costs

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

K. Bond Premium

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

L. Gain/Loss on Refunding

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

M. Compensated Absences

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

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

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

N. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, contractually required pension contributions and retirement incentives that will be paid from governmental funds are reported as a liability in the fund financial

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

statements only to the extent that they are due for the payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

O. 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 government-wide statement of net assets reports \$4,358,972 of restricted net assets, none of which is restricted by enabling legislation.

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

P. Fund Balance Reserves

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

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

Q. Internal Activity

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. Operating Revenues and Expenses

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

S. 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.

T. Estimates

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

Note 3- Restatement of Fund Balance

At June 30, 2006, it was determined that deferred revenue for the settlement was overstated by \$235,000 in the general fund. This restatement increased the fund balance of the general fund by \$235,000, from \$4,822,691 to \$5,057,691. Total fund balance of the governmental funds increased from \$8,598,839 to \$8,833,839.

Note 4 – Fund Deficits

At June 30, 2007, the following special revenue funds had deficits: the Handicapped Preschool fund had a deficit of \$1,015, the Title VI-B fund had a deficit of \$22,938, and the Miscellaneous State Grants fund had a deficit of \$7,339. At June 30, 2007, the Building fund had a deficit of \$2,250. These deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

5. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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

| Net Change in Fund Balance | |
|---|---------------------------|
| GAAP Basis | \$243,554 |
| Net Adjustment for Revenue Accruals | 464,563 |
| Advance In | 99,152 |
| Beginning Fair Value Adjustment for Investments | 2,494 |
| Ending Fair Value Adjustment for Investments | 7,321 |
| Net Adjustment for Expenditure Accruals | 251,923 |
| Advance Out | (106,470) |
| Adjustment for Encumbrances | <u>(1,108,960)</u> |
| Budget Basis | <u><u>(\$146,423)</u></u> |

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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;

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$3,528,962 of the School District's bank balance of \$3,739,325 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

Investments are reported at fair value. As of June 30, 2007, the School District had the following investments:

| | Fair Value | Maturities (in Years) | |
|--|---------------|-----------------------|-------------|
| | | Less than 1 | 1-2 |
| Federal National Mortgage Association Notes | \$2,461,800 | \$987,090 | \$1,474,710 |
| Federal Home Loan Mortgage Corporation Notes | 3,460,490 | 3,460,490 | 0 |
| Federal Home Loan Bank Notes | 496,637 | 0 | 496,637 |
| STAROhio | 4,133,661 | 4,133,661 | 0 |
| <i>Total Investments</i> | \$10,552,588 | \$8,581,241 | \$1,971,347 |

Olmsted Falls City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District’s investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. To date, no investments have been purchased with a life greater than two years.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Notes, the Federal National Mortgage Association Notes and the Federal Home Loan Mortgage Corporation Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent but not in the School District’s name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk The Federal National Mortgage Association Notes, the Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes carry a rating of AAA by Standard & Poor’s and STAROhio also carries a rating of AAA by Standard & Poor’s. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The following is the School District’s allocation as of June 30, 2007:

| Investment | Percentage of Investments |
|--|---------------------------|
| Federal Home Loan Bank Notes | 4.71% |
| Federal National Mortgage Association Notes | 23.33% |
| Federal Home Loan Mortgage Corporation Notes | 32.79% |
| STAROhio | 39.17% |

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Cuyahoga and Lorain Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007 was \$1,206,266 in the general fund, \$114,234 in the bond retirement debt service fund, and \$14,013 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2006, was \$1,741,799 in the general fund, \$66,936 in the bond retirement debt service fund, and \$10,186 in the classroom facilities capital projects fund.

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

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

| | 2006 Second Half Collections | | 2007 First Half Collections | |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$440,243,480 | 94.76 % | \$481,276,691 | 96.37 % |
| Public Utility Personal | 11,842,560 | 2.55 | 11,842,560 | 2.37 |
| Tangible Personal Property | 12,515,961 | 2.69 | 6,284,034 | 1.26 |
| Total | <u>\$464,602,001</u> | <u>100.00 %</u> | <u>\$499,403,285</u> | <u>100.00 %</u> |
| Tax rate per \$1,000 of assessed valuation | \$89.70 | | \$89.80 | |

Note 8 - Receivables

Receivables at June 30, 2007, consisted of taxes, accounts (rent and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| Governmental Activities | Amounts |
|-------------------------|------------------|
| City of Olmsted Falls | \$5,031 |
| Food Service | 29,265 |
| Title VI-B Grant | 102,535 |
| Title VI | 475 |
| Drug Free Schools | 1,973 |
| Preschool | 3,131 |
| Title II-A | 495 |
| Total | <u>\$142,905</u> |

Note 9 - Settlement Receivable

The Olmsted Falls City School District in conjunction with Olmsted Township challenged a real property tax exemption claimed and received by The Renaissance Retirement Center. The exemption was granted for the tax years 1991 to 2006. This exemption was based on the facility providing medical services as a hospital. The challenge was appealed until reaching the Ohio Supreme Court. The Ohio Supreme Court ruled that some portion of the property was and is taxable. The taxable portion was then disputed. On May 13, 1998 a settlement was reached between The Renaissance Retirement Center, Olmsted Township, and Olmsted Falls City School District. The settlement provides that The Renaissance Retirement Center shall make payments directly to the Olmsted Falls City School District. The payments are secured by a mortgage on several properties owned by The Renaissance Retirement Center. In the event of a default on the payments by The Renaissance Retirement Center, the mortgage provided by the settlement allows the Olmsted Falls City School District and Olmsted Township to foreclose on the properties. The payments are to be made semi-annually beginning in January 1999 and continuing through July 2007. The final payments totaling \$470,000 were collected within fiscal year 2007.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 10 - Capital Assets

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

| | Balance 6/30/06 | Additions | Deletions | Balance 6/30/07 |
|---|---------------------|----------------------|-------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$2,979,985 | \$0 | \$0 | \$2,979,985 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 22,404,097 | 0 | 0 | 22,404,097 |
| Furniture and Equipment | 9,193,152 | 407,267 | (125,514) | 9,474,905 |
| Vehicles | 2,968,107 | 82,064 | 0 | 3,050,171 |
| <i>Total Capital Assets, being depreciated</i> | <u>34,565,356</u> | <u>489,331</u> | <u>(125,514)</u> | <u>34,929,173</u> |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Buildings and Improvements | (9,967,886) | (514,691) | 0 | (10,482,577) |
| Furniture and Equipment | (5,550,660) | (572,160) | 97,308 | (6,025,512) |
| Vehicles | (434,842) | (143,454) | 0 | (578,296) |
| <i>Total Accumulated Depreciation</i> | <u>(15,953,388)</u> | <u>(1,230,305) *</u> | <u>97,308</u> | <u>(17,086,385)</u> |
| <i>Total Capital Assets, being depreciated, net</i> | <u>18,611,968</u> | <u>(740,974)</u> | <u>(28,206)</u> | <u>17,842,788</u> |
| Governmental Activities Capital Assets, Net | <u>\$21,591,953</u> | <u>(\$740,974)</u> | <u>(\$28,206)</u> | <u>\$20,822,773</u> |

* Depreciation expense was charged to governmental functions as follow:

| | |
|--|--------------------|
| Instruction: | |
| Regular | \$986,807 |
| Special | 3,731 |
| Vocational | 5,574 |
| Support Services: | |
| Pupils | 10,095 |
| Instructional Staff | 2,574 |
| Administration | 3,289 |
| Fiscal | 289 |
| Operation and Maintenance of Plant | 60,022 |
| Pupil Transportation | 120,967 |
| Central | 3,599 |
| Operation of Non-Instructional Services: | |
| Food Service Operations | 23,171 |
| Other Non-Instructional Services | 2,269 |
| Extracurricular Activities | 7,918 |
| Total Depreciation Expense | <u>\$1,230,305</u> |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for property insurance of \$76,664,735, with a deductible of \$1,000 per incident. Vehicle liability is insured by SORSA in the amount of \$11,000,000, with no deductible. Professional liability is protected by the SORSA for all Board Members, administrators, and employees with limits of \$11,000,000 per occurrence and \$11,000,000 aggregate limit.

The Hylant Administrative Services Company maintains a \$20,000 public official bond each for the Superintendent, the Board of Education President, the Board of Education Vice President, and a \$7,000 public official bond for three Board of Education members. A \$20,000 public official bond for the Treasurer is maintained with Harcum-Hyre Insurance. Other employees handling money are covered by a \$5,000 public employees blanket bond provided by Hylant Administrative Services.

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

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Previously, the School District provided medical and prescription drugs on a self-insured basis. The benefits are now provided on a fully insured basis. The School District has elected to continue to provide vision and dental benefits on a self-insured basis. Claims liability reported in the self-insurance fund at June 30, 2007, was \$124,428. The claims liability is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amounts for the last two years follows:

| | Balance at Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|---------------------------------|------------------------|-------------------|---------------------------|
| 2006 | \$8,821 | \$416,065 | \$392,745 | \$32,141 |
| 2007 | 32,141 | 480,142 | 387,855 | 124,428 |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 12 - Defined Benefit Pension Plans

A. School Employee Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$610,490, \$515,429 and \$490,723 respectively; 45.02 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

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

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

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$2,012,372, \$1,952,717, and \$1,865,604 respectively; 83.68 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$8,418 made by the School District and \$35,716 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007 five members of the Board of Education have elected Social Security. The social security liability will equal 6.2 percent of wages.

Note 13 - Post Employment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$154,798 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$292,929.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

Note 14 - Other Employee Benefits

A. Compensated Absences

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

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

B. Early Retirement Incentive

Certified Employees:

Any teacher who has not been eligible to retire prior to July 1, 2003 under the State Teachers Retirement System (STRS) pursuant to Ohio Revised Code Section 3307.38 and any applicable STRS regulations and who becomes eligible during the life of this Agreement will be eligible for a retirement incentive of \$1,200 for each year of STRS service up to a maximum of thirty years, if the teacher retires at the end of the school year in which the teacher first becomes eligible. If an eligible teacher has not yet completed thirty years of service and does not retire at the end of the school year in which the teacher first becomes eligible, the teacher will have one more opportunity to take advantage of this incentive by retiring at the end of the school year which the teacher completes thirty years of service. This incentive, combined with any severance pay entitlement will be paid in three installments over a period of three years, with any lump sum severance pay to be issued within thirty days of the effective date of the teacher's retirement; 50 percent of the retirement incentive to be payable one year following the teacher's effective retirement date, with the remaining 50 percent to be paid two years after the effective date of retirement. To be

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

eligible for this incentive, the teacher must submit a resignation on or before March 1 of the school year in which the teacher first becomes eligible to retire and must retire no later than June 30 of that school year. The teacher seeking this retirement incentive is responsible for insuring the Board has accurate information regarding the teacher's service credit. The Board will provide a courtesy reminder of a teacher's eligibility for this incentive by December 15 of the school year in which the teacher is first eligible for retirement. This courtesy does not impact the teacher's notice requirements.

Classified Employees:

Any employee who has not been eligible to retire prior to July 1, 2004 under the School Employees Retirement System (SERS) pursuant to Ohio Revised Code Section 3309.34 and any applicable SERS regulations and who becomes eligible and retires during the life of this Agreement will be eligible for a retirement incentive of 40 percent of the employee's base wage at the time of retirement, excluding overtime, bonuses, extra trips or "extra" compensation if the employee retires at the end of the school year in which the employee first becomes eligible. If the employee has not yet completed 30 years of SERS service and does not retire at the end of the school year in which the employee first becomes eligible, the employee will have one more opportunity to take advantage of this incentive by retiring during or at the end of the school year in which the employee completes 30 years of SERS service. This incentive, combined with any severance pay entitlements, will be paid in three installments, with any lump sum severance pay to be issued within 30 days of proof of retirement and 50 percent of the retirement incentive to be payable the first pay period in July following the next full fiscal year following the date of retirement. The balance of the incentive will be payable the first pay period in July following two full fiscal years after the employee's effective retirement date. To be eligible for this incentive, the employee must submit a resignation 90 days prior to the employee's date of retirement.

C. Life Insurance

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

Note 15 - Leases

A. Capital Leases

During fiscal year 2007, the School District entered into capital leases for copiers. The School District also has existing leases for land, three buses, two vans, two modular classrooms and four copiers. The School District's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases." Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

| | |
|---|---------------------------|
| Governmental Activities | |
| Capital Assets, not being depreciated | |
| Land | \$1,750,000 |
| Capital Assets, being depreciated | |
| Furniture and Equipment | 1,381,633 |
| Vehicles | 249,523 |
| Total Leased Assets, being depreciated | <u>1,631,156</u> |
| Less Accumulated Depreciation: | |
| Furniture and Equipment | (513,645) |
| Vehicles | (62,381) |
| Total Accumulated Depreciation | <u>(576,026)</u> |
| <i>Total Capital Assets, being depreciated, net</i> | <u>1,055,130</u> |
| <i>Governmental Activities Leased Assets, Net</i> | <u><u>\$2,805,130</u></u> |

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

| Fiscal Year Ending June 30, | Governmental Activities |
|---|----------------------------|
| 2008 | \$258,633 |
| 2009 | 180,669 |
| 2010 | 67,214 |
| 2011 | 59,094 |
| 2012 | 978 |
| Total | <u>566,588</u> |
| Less: Amount Representing Interest | <u>(53,613)</u> |
| Present Value of Net Minimum Lease Payments | <u><u>\$512,975</u></u> |

Note 16 - Long-Term Obligations

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

| Debt Issue | Interest Rate | Original Issue Amount | Date of Maturity |
|--|---------------|--------------------------|-------------------|
| General Obligation Bonds: | | | |
| School Improvement Refunding - 1997 | 3.85-6.75% | \$8,828,772 | December 15, 2011 |
| Various Purpose Improvement - 1998 | 4.60% | \$270,000 | December 15, 2006 |
| Energy Conservation Improvement - 2002 | 6.12% | \$605,025 | December 1, 2010 |
| Classroom Facilities Refunding - 2003 | 2.0-14.065% | \$5,709,978 | December 15, 2017 |

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

| | Principal Outstanding 6/30/06 | Additions | (Reductions) | Principal Outstanding 6/30/07 | Amount Due in One Year |
|---|-------------------------------------|--------------------|----------------------|-------------------------------------|------------------------------|
| Governmental Activities: | | | | | |
| General Obligations Bonds: | | | | | |
| 1997 School Improvement Refunding | | | | | |
| Serial Bonds | \$730,000 | \$0 | (\$730,000) | \$0 | \$0 |
| Capital Appreciation Bonds | 2,998,772 | 0 | 0 | 2,998,772 | 642,135 |
| Accretion on Capital Appreciation Bonds | 2,227,820 | 353,050 | 0 | 2,580,870 | 0 |
| 1998 Various Purpose Improvement | 35,000 | 0 | (35,000) | 0 | 0 |
| 2002 Energy Conservation Improvement | 302,513 | 0 | (60,503) | 242,010 | 60,503 |
| 2003 Classroom Facilities Refunding | | | | | |
| Serial Bonds | 4,695,000 | 0 | (445,000) | 4,250,000 | 110,000 |
| Capital Appreciation Bonds | 449,978 | 0 | 0 | 449,978 | 0 |
| Accretion on Capital Appreciation Bonds | 84,605 | 12,319 | 0 | 96,924 | 0 |
| Premium | 468,094 | 0 | (58,512) | 409,582 | 0 |
| Deferred Loss on Refunding | (373,441) | 0 | 46,680 | (326,761) | 0 |
| <i>Total General Obligation Bonds</i> | <u>11,618,341</u> | <u>365,369</u> | <u>(1,282,335)</u> | <u>10,701,375</u> | <u>812,638</u> |
| Capital Leases | 755,701 | 111,782 | (354,508) | 512,975 | 229,973 |
| Compensated Absences | 2,808,852 | 1,075,598 | (858,107) | 3,026,343 | 921,862 |
| Total Governmental Activities | <u>\$15,182,894</u> | <u>\$1,552,749</u> | <u>(\$2,494,950)</u> | <u>\$14,240,693</u> | <u>\$1,964,473</u> |

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

The 1997 general obligation bonds include capital appreciation bonds. This year the addition on these bonds was \$353,050, which represents the accretion of discounted interest remaining on the bonds. The final maturity amount of these bonds is \$6,575,000.

On August 13, 2003, the School District issued \$5,709,978 in general obligation refunding bonds, which included \$5,260,000 in serial bonds and \$449,978 in capital appreciation bonds at interest rates varying from 2.0 percent to 14.065 percent.

The bonds were sold at a premium of \$643,631. Proceeds of \$6,223,481 (after the underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded portion of the 1995 classroom facilities improvement bonds. As a result, \$5,045,000 of these bonds was considered defeased and the liability for the refunded portion of these bonds has been removed from the basic financial statements.

The serial bonds were issued for a 15 year period with a final maturity at December 15, 2017. The capital appreciation bonds were issued for a 12 year period with a final maturity at December 15, 2014. The final amount of capital appreciation of the bonds will be \$1,710,000. For fiscal year 2007, \$12,319 was accreted. The bonds are being retired from the bond retirement fund.

The 2003 classroom facilities refunding serial bonds maturing on December 15 in the years 2005, 2006 and 2017 are subject to prior redemption by and at the sole option of this School District beginning December 15, 2004 and currently outstanding in the aggregate principal amount \$5,710,000.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The School District's overall legal debt margin was \$39,767,923 with an unvoted debt margin of \$499,403 at June 30, 2007. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2007, are as follows:

| Fiscal Year Ending June, 30 | General Obligation Bonds | | Capital Appreciation Bonds | | Total | |
|--------------------------------|--------------------------|--------------------|----------------------------|--------------------|--------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2008 | \$170,503 | \$177,560 | \$642,135 | \$577,865 | \$812,638 | \$755,425 |
| 2009 | 175,503 | 171,040 | 621,241 | 643,759 | 796,744 | 814,799 |
| 2010 | 180,503 | 163,984 | 628,052 | 751,948 | 808,555 | 915,932 |
| 2011 | 180,501 | 156,441 | 567,637 | 772,363 | 748,138 | 928,804 |
| 2012 | 125,000 | 150,237 | 539,657 | 830,343 | 664,657 | 980,580 |
| 2013-2017 | 2,690,000 | 582,710 | 449,978 | 1,260,022 | 3,139,978 | 1,842,732 |
| 2018 | 970,000 | 20,128 | 0 | 0 | 970,000 | 20,128 |
| Total | <u>\$4,492,010</u> | <u>\$1,422,100</u> | <u>\$3,448,700</u> | <u>\$4,836,300</u> | <u>\$7,940,710</u> | <u>\$6,258,400</u> |

Note 17 - Set-Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2007, only the unspent portion of certain workers' compensation refunds continues to be required to be set aside.

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

| | Textbooks Instructional Materials Reserve | Capital Improvement Reserve | Budget Reserve |
|--|--|-----------------------------------|-------------------|
| Set-aside Reserve Balance as of June 30, 2006 | (\$867,857) | \$0 | \$223,918 |
| Current Year Set-aside Requirement | 517,513 | 517,513 | 0 |
| Offsets During the Fiscal Year | 0 | (216,437) | 0 |
| Qualifying Disbursements | (841,152) | (445,708) | 0 |
| Totals | <u>(\$1,191,496)</u> | <u>(\$144,632)</u> | <u>\$223,918</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>(\$1,191,496)</u> | <u>\$0</u> | <u>\$223,918</u> |
| Set-aside Reserve Balance as of June 30, 2007 | <u>\$0</u> | <u>\$0</u> | <u>\$223,918</u> |

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

Note 18 - Jointly Governed Organizations

A. Lake Erie Educational Computer Association (LEECA)

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization among thirty School Districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the schools support LEECA based upon a per pupil charge dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. LEECA is governed by a Board of Directors chosen from the general membership of the LEECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and at least one Assembly member from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. The Olmsted Falls City School District paid \$17,022 to LEECA in fiscal year 2007. Financial information can be obtained by contacting the Treasurer at the Lorain County Educational Service Center, who serves as the fiscal agent, at 1885 Lake Avenue, Elyria, Ohio 44035.

B. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among 108 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2007, the Center paid \$800 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

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

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

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

C. Polaris Career Center

The Polaris Career Center is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Board of Education is comprised of representatives from the board of each participating school district. The board is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. Olmsted Falls City School District students may attend the vocational school. Each school district's control is limited to its representation on the board. The School District did not contribute to Polaris Career Center during fiscal year 2007. Financial information can be obtained by contacting the Treasurer at the Polaris Career Center, 7285 Old Oak Boulevard, Middleburg Heights, Ohio 44130.

Note 19 - Insurance Purchasing Pool

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

Note 20 – Risk Sharing Pool

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), a risk sharing pool with over 65 members. SORSA is a 100 percent member-owned, non-profit insurance risk pool owned and governed by the school district members. SORSA is governed by a Board of Directors comprised of representatives of school districts that participate in the program.

SORSA has agreements with several separate organizations whereby each provides certain administrative, executive, accounting, marketing, underwriting, claim settlement, legal counsel and other services to SORSA and its members. Pursuant to participation agreements with SORSA, each member school district agrees to pay all funding rates associated with the coverage elected. This coverage includes comprehensive general liability, property insurance and automobile liability insurance. To obtain a copy of the SORSA financial statements, write SORSA Executive Director at 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 21 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

Note 22 – Interfund Balances and Transfers

Interfund balances at June 30, 2007, consist of the following individual fund receivables and payables:

| <u>Interfund Payable</u> | <u>Interfund Receivable</u> |
|------------------------------------|---------------------------------|
| | <u>General</u> |
| Nonmajor Governmental Funds | |
| Bond Levy | \$1,500 |
| Gifted Supplement | 6,962 |
| Title VI-B | 23,114 |
| Title V | 485 |
| Drug Free Grant | 1,973 |
| Special Ed. | 22 |
| Reducing Class Size | 589 |
| Total | \$34,645 |

The interfund payables are advances for grant monies that were not received by fiscal year end and were for support to programs and projects in the special revenue funds. Advances will be repaid within one year.

Note 23 – Subsequent Events

On September 13, 2007, the School District issued \$14,755,972 in general obligation bonds for the purpose of adding to, constructing, furnishing, equipping and otherwise improving School District buildings and facilities. The bonds have a varying interest rate between 4.00 percent to 5.00 percent, and a maturity date of December 1, 2035. Voters passed the 2 mill bond issue in May 2007.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

On January 9, 2008, the School District issued \$1,481,992 in bond anticipation notes for the purpose of paying costs to install, modify, and remodel School District buildings to conserve energy. The coupon interest rate is 3.75 percent and the notes mature on December 18, 2008.

On January 17, 2008, the School District issued \$2,244,000 in unlimited tax general obligation bond anticipation notes for the purpose of adding to, constructing, furnishing, equipping and otherwise improving School District buildings and facilities. The coupon interest rate is 3.50 percent and the notes mature on January 15, 2009. Voters passed the 2 mill bond issue in May 2007.

On March 27, 2008, the Ohio School Facilities Commission (OSFC) approved funding for Olmsted Falls City School District for construction and renovation projected to be completed through the School District's participation in the Ohio School Facilities Commission's Exceptional Needs Program (ENP). The Ohio School Facilities Commission will contribute \$7,772,397 in state funding towards this project.

Olmsted Falls City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

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

| Federal Agency Pass-through Agency Federal Program | Pass Through Agency Awarding Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|---|---|---------------------------|------------------|----------------------|--------------------|--------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| Food Distribution Program | N/A | 10.550 | \$0 | \$86,431 | \$0 | \$86,431 |
| National School Breakfast | 046573-05PU-2006 | 10.553 | 7,096 | 0 | 7,096 | 0 |
| National School Breakfast | 046573-05PU-2007 | 10.553 | 20,067 | 0 | 20,067 | 0 |
| Total National School Breakfast | | | 27,163 | 0 | 27,163 | 0 |
| National School Lunch Program | 046573-LLP4-2006 | 10.555 | 45,366 | 0 | 45,366 | 0 |
| National School Lunch Program | 046573-LLP4-2007 | 10.555 | 112,560 | 0 | 112,560 | 0 |
| Total National School Lunch Program | | | 157,926 | 0 | 157,926 | 0 |
| Total U.S. Department of Agriculture - Child Nutrition Cluster | | | 185,089 | 86,431 | 185,089 | 86,431 |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education Grants to States, IDEA Part B | 046573-6BSD-2006 | 84.027 | 5,466 | 0 | 4,246 | 0 |
| Special Education Grants to States, IDEA Part B | 046573-6BSF-2006 | 84.027 | 111,269 | 0 | 119,578 | 0 |
| Special Education Grants to States, IDEA Part B | 046573-6BSF-2007 | 84.027 | 579,558 | 0 | 595,728 | 0 |
| Total Special Education Grants to States | | | 696,293 | 0 | 719,552 | 0 |
| Special Education Preschool Grants | 046573-PGS1-2006 | 84.173 | 3,215 | 0 | 3,570 | 0 |
| Special Education Preschool Grants | 046573-PGS1-2007 | 84.173 | 23,067 | 0 | 22,638 | 0 |
| Total Special Education Preschool Grants | | | 26,282 | 0 | 26,208 | 0 |
| Total Special Education Cluster | | | 722,575 | 0 | 745,760 | 0 |
| Innovation Education Program Strategies, Title V | 046573-C2S1-2006 | 84.298 | 0 | 0 | 799 | 0 |
| Innovation Education Program Strategies, Title V | 046573-C2S1-2007 | 84.298 | 4,551 | 0 | 4,733 | 0 |
| Total Innovation Education Program Strategies, Title V | | | 4,551 | 0 | 5,532 | 0 |
| Improving Teacher Quality, Title II-A | 046573-TRS1-2006 | 84.367 | 6,729 | 0 | 3,875 | 0 |
| Improving Teacher Quality, Title II-A | 046573-TRS1-2007 | 84.367 | 53,483 | 0 | 52,898 | 0 |
| Total Improving Teacher Quality, Title II-A | | | 60,212 | 0 | 56,773 | 0 |
| Safe and Drug Free Schools and Communities- State Grants | 046573-DRS1-2006 | 84.186 | 283 | 0 | 887 | 0 |
| Safe and Drug Free Schools and Communities- State Grants | 046573-DRS1-2007 | 84.186 | 4,169 | 0 | 5,948 | 0 |
| Total Safe and Drug Free Schools and Communities- State Grants | | | 4,452 | 0 | 6,835 | 0 |
| <i>Passed Through Educational Service Center of Cuyahoga County:</i> | | | | | | |
| English Language Acquisition Grants, Title III | 043547-T3S2-2006 | 84.365 | 0 | 0 | 2,321 | 0 |
| English Language Acquisition Grants, Title III | 043547-T3S2-2007 | 84.365 | 2,067 | 0 | 1,866 | 0 |
| Total English Language Acquisition Grants, Title III | | | 2,067 | 0 | 4,187 | 0 |
| Total U.S. Department of Education | | | 793,857 | 0 | 819,087 | 0 |
| Total All Federal Funds | | | \$978,946 | \$86,431 | \$1,004,176 | \$86,431 |

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

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.



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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Olmsted Falls City School District, Cuyahoga County, Ohio (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 9, 2008, wherein we noted the District restated fund balances of Governmental Funds as of June 30, 2006. We also qualified the opinion on the basic financial statements because certain information related to Internal Service Fund expenses and liabilities reported within governmental activities and remaining fund information was not available for audit. Except for the matter discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-002 is also a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated April 9, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 9, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

April 9, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

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

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

As described in finding 2007-003 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs/cost principles applying to its Special Education Grant (CFDA #84.027 and #84.173). Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Olmsted Falls City School District complied, in all material respects, with the requirements referred to above applying to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2007-003 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider finding 2007-003 described in the accompanying schedule of findings and questioned costs to be a material weakness.

The District's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

April 9, 2008

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|--|

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

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(CONTINUED)**

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

| | |
|-----------------------|------------------|
| Finding Number | 2007- 001 |
|-----------------------|------------------|

Material Noncompliance and Significant Deficiency

Retention of Public Records

Ohio Revised Code Section 149.351(A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions.

Further, it is important that District personnel retain adequate records of the procedures performed and the methods used as an adequate means of supporting departmental accounting transactions. Ultimately, documentation can be the clearest form of evidence that is widely used and readily available to an auditor, at a relatively low cost. Retention of adequate records supporting accounting transactions increases accountability over those activities and results in a more efficient means in which to detect and correct errors.

District personnel failed to maintain specific and necessary documentation to support the completeness and accuracy of 31 out of 60 (52%) extracurricular receipts tested. At the High School, where 24 of these instances occurred, 12 of the unsupported receipts were for athletic admissions, in which there was no documentation maintained as to the number of tickets sold or admission price for each event. Other unsupported extracurricular receipts at the High School were for activities including fundraisers, tournament receipts, athletic passes, magazine sales, dance ticket sales, music concert admissions, wrestling dues, and masquers tickets in which the only support maintained was a total collected. At the Middle School, where five of the instances occurred, three of the receipts were related to music concert admissions. While the Middle School maintained beginning and ending ticket number information for music concert admission sales, they did not document the quantity of individual and family tickets that were sold, making it difficult to determine the prices that were charged. The other two receipts that lacked support at the Middle School were for drama club ticket sales and a building club fundraiser; the only support maintained for these two events was a total of the amounts collected. At Fitch Intermediate School, the one inadequately supported receipt was due to a lack of accounting over bookstore sales activity. The activity advisor did not record the quantity or items that were sold in the student-run book store; furthermore, daily totals of amounts collected were not maintained. At Falls Lenox Elementary School, one receipt was unsupported due to an activity advisor not maintaining support for the sale of jump ropes to students.

Receipts for tuition and fees that originated from the Middle School, Fitch Intermediate School, and Falls Lenox Elementary School were not adequately supported for 17 out of 60 (28%) receipts tested. At the Middle School, where six of these instances occurred, we were unable to recalculate the amounts receipted based on the documentation provided. At Fitch Intermediate School, we were unable to recalculate 10 out of 10 tuition and fee receipts tested due to the lack of deposit detail maintained by the school. At Falls Lenox Elementary, the district did not maintain sufficient detail over receipts collected for pre-school snacks.

Failure to maintain adequate documentation supporting these types of receipts could result in a loss of accountability over these activities and make it difficult for District personnel to identify errors which could go undetected.

We recommend the District maintain all public records as required by the Ohio Revised Code.

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(CONTINUED)**

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

| | |
|-----------------------|------------------|
| Finding Number | 2007- 001 |
|-----------------------|------------------|

Material Noncompliance and Significant Deficiency (Continued)

Retention of Public Records (Continued)

Officials' Response:

The District understands the importance of maintaining adequate documentation for public records. Additional training sessions will be completed for all affected personnel.

| | |
|-----------------------|------------------|
| Finding Number | 2007- 002 |
|-----------------------|------------------|

Significant Deficiency and Material Weakness

Self Insurance Activity SAS-70 Report

The District has delegated employees' vision and dental claims processing to a third-party administrator. The District has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that vision and dental insurance claims have not been completely and accurately processed in accordance with the insurance contract.

AU 324 requires the Auditor of State to gain an understanding of internal control at any service organization that processes financially significant (i.e. material) transactions of the District, which would then have a material effect on the District's financial statements. Vision and dental claims activity recorded in the internal service fund is material to the financial statements; therefore, it is important for the District to help assure the completeness and accuracy (including eligibility and allowability) of vision and dental insurance claims processed by its third-party administrator.

Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Tier II Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS No. 70 should provide the District with reasonable assurance that vision and dental claim transactions conform to the contract.

We recommend the District require a Tier II SAS-70 Report in its contract with the third-party administrator. The District should review the SAS-70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered in good standing with the Accountancy Board of the respective state. If the District feels the cost of a SAS-70 report would be prohibitive, we recommend the District engage an independent auditor to perform agreed-upon procedures related to the processing by the service organization. With either scenario, if the third-party administrator refuses to comply with these requirements, we recommend the District contract with a third-party administrator that will either provide a Tier II SAS-70 Report, or allow the District to engage in agreed-upon procedures related to the processing by the service organization.

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(CONTINUED)**

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

| | |
|-----------------------|------------------|
| Finding Number | 2007- 002 |
|-----------------------|------------------|

Significant Deficiency and Material Weakness (Continued)

Self Insurance Activity SAS-70 Report (Continued)

Officials' Response:

Effective July 1, 2008, the District will do one of the following: 1) Move the dental and vision claims processing to a fully insured position; 2) Change its dental and vision claims processing to a third party administrator that completes a SAS 70 report; or 3) Work with the current third party administrator for claims processing and have agreed upon procedures completed in lieu of a SAS-70 Report.

**OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(CONTINUED)**

| |
|---------------------------------------|
| 3. FINDINGS FOR FEDERAL AWARDS |
|---------------------------------------|

| | |
|------------------------------------|---|
| Finding Number | 2007-003 |
| CFDA Title and Number | Special Education Grants to States – CFDA #84.027 and Special Education, Preschool Grant – CFDA #84.173 |
| Federal Award Number / Year | 046573-6BSF-2007 046573-PGS1-2007 |
| Federal Agency | U.S. Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Questioned Costs and Material Weakness

Documentation for Payroll Charges

2 CFR 225 (formerly OMB Cost Principles Circular A-87) Attachment B Section 8(a) provides that compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of the Circular.

2 CFR 225 Attachment B Section 8(h)(3), provides that an employee who works solely on single cost objectives (i.e., a single Federal program whose administrative funds have not been consolidated) must furnish semi-annual certifications that he or she has been engaged solely in activities supported by the applicable source.

2 CFR 225 Attachment B Section 8(h)(4), provides that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which must, according to subsection (h)(5), (a) reflect an after-the-fact distribution of the actual activity of each employee, (b) account for the total activity for which each employee is compensated, (c) be prepared at least monthly and coincide with one or more pay periods, and (d) signed by the employee.

Subsection (h)(5)(e), provides that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for changes to Federal awards but may be used for interim accounting purposes, provided that:

- i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences budgeted and actual costs are less than ten percent; and
- iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary to reflect changed circumstances.

The District did not maintain semi-annual certifications for employees who worked full-time on the Special Education Cluster grants during fiscal year 2007. The amount of grant monies expended on salaries for which there were no supporting employee semi-annual certifications was \$92,754. As a result, the costs of these salaries as charged to the Special Education Cluster grants are considered to be questioned costs.

OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(CONTINUED)

3. FINDINGS FOR FEDERAL AWARDS

| | |
|----------------|-----------|
| Finding Number | 2007- 003 |
|----------------|-----------|

Questioned Costs and Material Weakness (Continued)

Documentation for Payroll Charges (Continued)

We recommend the District maintain semi-annual certification documentation for all employees paid solely from a single Federal program.

Also, the District did not obtain sufficient time and effort documentation for employees who were partially paid from Special Education grant funds during fiscal year 2007. The amount of monies charged to the Special Education Cluster for salaries, in which there was no time and effort documentation provided is \$114,611. As a result, the costs for these salaries as charged to the Special Education Cluster grants are considered to be questioned costs.

We recommend the District develop a method whereby the various activities of employees are documented as they relate to the various programs and awards. This documentation should be used to determine the allocation of salary among the various programs, grants, activities, etc. We further recommend the District's management review the requirements of CFR 225 to determine the documentation needed and other requirements related to the allowability of costs to Federal awards to prevent such noncompliance in the future.

Therefore we question a total of \$207,365 of costs paid from the Special Education Cluster.

Officials' Response:

Effective for fiscal year 2008, the District has incorporated time and effort documentation for employees who work on multiple cost activities, and semi-annual certification documentation for employees who work full time on federal grant projects.

OLMSTED FALLS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

| FINDING NUMBER | FINDING SUMMARY | FULLY CORRECTED? | NOT CORRECTED; PARTIALLY CORRECTED; SIGNIFICANTLY DIFFERENT CORRECTIVE ACTION TAKEN; OR FINDING NO LONGER VALID; <i>EXPLAIN:</i> |
|-----------------------|---|-----------------------------|---|
| 2006-001 | Appropriations Exceeding Estimated Resources | Yes | Fully corrected. |



Mary Taylor, CPA
Auditor of State

OLMSTED FALLS CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 15, 2008**