



**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Falls City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Falls City School District, Summit County, Ohio, as of June 30, 2005, 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 described in Note 3 to the financial statements, the District reclassified certain funds among the General Fund and other nonmajor funds. In addition, the District implemented Governmental Accounting Standards Board Statement Technical Bulletin No. 2004-002, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. Fund balances/net assets as of June 30, 2004 have been restated as a result of the reclassifications and implementation of this Technical Bulletin.

Also, as discussed in Note 19 to the financial statements, the District was placed in fiscal watch by the Auditor of State pursuant to Ohio Revised Code Section 3316.03.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006, 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.

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

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



Betty Montgomery
Auditor of State

February 10, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The management's discussion and analysis of the Cuyahoga Falls City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$2,100,162 which represents a 78.46% decrease from 2004.
- General revenues accounted for \$39,287,219 in revenue or 85.10% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,880,215 or 14.90% of total revenues of \$46,167,434.
- The District had \$48,267,596 in expenses related to governmental activities; only \$6,880,215 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$39,287,219 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$44,381,088 in revenues and other financing sources and \$43,091,402 in expenditures and other financing uses. The fund deficit of the general fund decreased \$1,289,686 from \$4,079,886 to \$2,790,200.
- The debt service fund had \$5,483,508 in revenues and \$6,511,992 in expenditures and other financing uses. The fund balance of the debt service fund decreased \$1,028,484 from \$189,560 to a deficit of \$838,924.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented in two private-purpose trust funds. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-51 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2005 and 2004. Certain 2004 amounts have been restated due to a prior period adjustment described in Note 3.A in the notes to the financial statements.

	Net Assets	
	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 26,366,733	\$ 24,194,783
Capital assets, net	<u>11,628,295</u>	<u>11,388,231</u>
Total assets	<u>37,995,028</u>	<u>35,583,014</u>
<u>Liabilities</u>		
Current liabilities	29,400,122	27,736,056
Long-term liabilities	<u>13,371,797</u>	<u>10,523,687</u>
Total liabilities	<u>42,771,919</u>	<u>38,259,743</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,882,159	3,152,869
Restricted	145,237	187,521
Unrestricted (deficit)	<u>(8,804,287)</u>	<u>(6,017,119)</u>
Total net assets	<u>\$ (4,776,891)</u>	<u>\$ (2,676,729)</u>

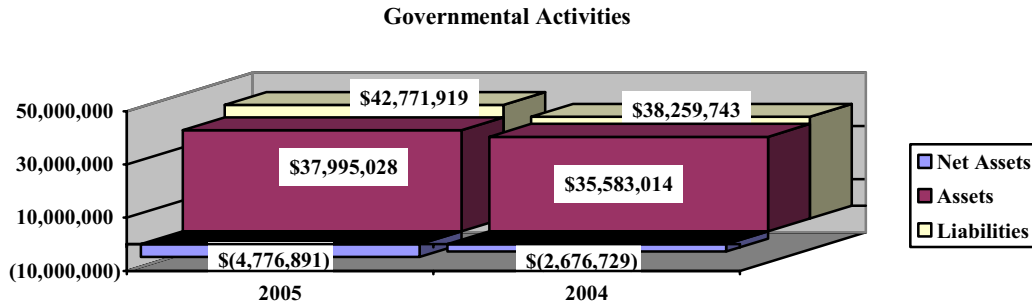
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's liabilities exceeded assets by \$4,776,891.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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At year-end, capital assets represented 30.60% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$3,882,159. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$145,237, represents resources that are subject to external restriction on how they may be used. The remaining unrestricted net assets balance is a deficit of \$8,804,287.



The table below shows the change in net assets for fiscal years 2005 and 2004. Certain 2004 balances have been restated due to a prior period adjustment described in Note 3.A in the notes to the financial statements.

Change in Net Assets

	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 3,109,905	\$ 3,733,085
Operating grants and contributions	3,725,975	3,237,912
Capital grants and contributions	44,335	-
General revenues:		
Property taxes	23,345,700	20,761,623
Grants and entitlements	15,651,319	15,212,056
Investment earnings	119,317	42,578
Payment in lieu of taxes	85,427	29,626
Other	85,456	901,730
Total revenues	46,167,434	43,918,610

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	<u>2005</u>	<u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 21,121,976	\$ 19,731,165
Special	5,712,325	4,697,690
Vocational	991,981	906,296
Adult/continuing	1,580	329
Other	2,650,881	1,639,382
Support services:		
Pupil	2,274,001	2,167,705
Instructional staff	1,672,926	2,328,486
Board of education	114,224	211,985
Administration	2,981,654	2,501,942
Fiscal	1,017,339	761,644
Business	369,187	375,087
Operations and maintenance	4,911,841	5,412,729
Pupil transportation	1,127,432	944,276
Central	216,382	559,392
Operations of non-instructional services:		
Non-instructional services	167,235	910,741
Food service operations	1,719,807	1,378,005
Extracurricular activities	788,363	1,014,962
Interest and fiscal charges	<u>428,462</u>	<u>416,253</u>
Total expenses	<u>48,267,596</u>	<u>45,958,069</u>
Change in net assets	(2,100,162)	(2,039,459)
Net assets at beginning of year (restated)	<u>(2,676,729)</u>	<u>(637,270)</u>
Net assets at end of year	<u>\$ (4,776,891)</u>	<u>\$ (2,676,729)</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$2,100,162. Total governmental expenses of \$48,267,596 were offset by program revenues of \$6,880,215 and general revenues of \$39,287,219. Program revenues supported 14.25% of the total governmental expenses.

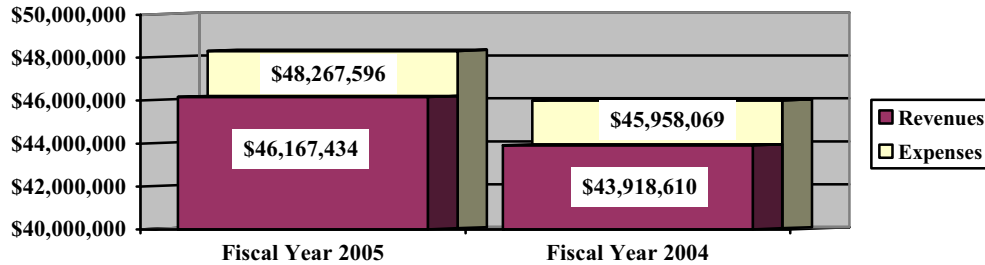
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 84.47% of the total governmental revenue. Real estate property is reappraised every six years.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

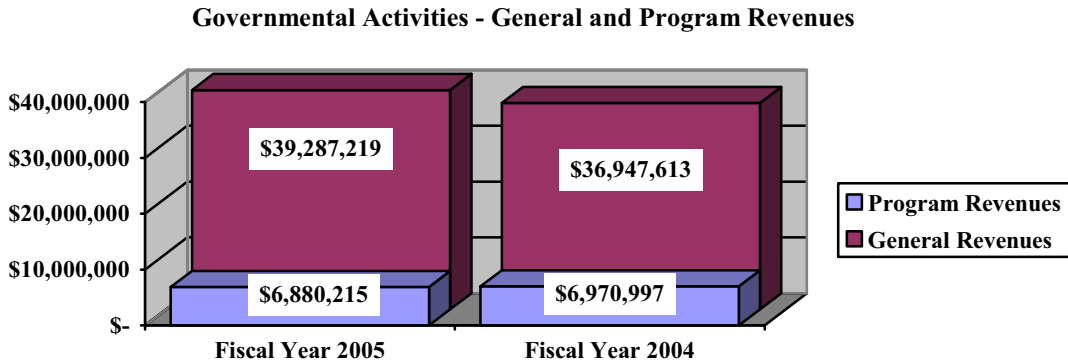
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Restated Total Cost of Services <u>2004</u>	Restated Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 21,121,976	\$ 19,162,726	\$ 19,731,165	\$ 17,328,470
Special	5,712,325	3,414,415	4,697,690	4,058,919
Vocational	991,981	915,345	906,296	745,692
Adult/continuing	1,580	(199)	329	(1,246)
Other	2,650,881	2,564,973	1,639,382	1,639,382
Support services:				
Pupil	2,274,001	2,200,150	2,167,705	2,043,290
Instructional staff	1,672,926	1,513,667	2,328,486	1,577,869
Board of education	114,224	114,224	211,985	211,985
Administration	2,981,654	2,966,510	2,501,942	2,501,942
Fiscal	1,017,339	1,009,845	761,644	761,644
Business	369,187	369,187	375,087	375,087
Operations and maintenance	4,911,841	4,671,265	5,412,729	5,184,370
Pupil transportation	1,127,432	1,105,377	944,276	944,276
Central	216,382	212,242	559,392	555,252
Operations of non-instructional services:				
Non-instructional services	167,235	(13,308)	910,741	(5,713)
Food service operations	1,719,807	181,409	1,378,005	(133,091)
Extracurricular activities	788,363	571,091	1,014,962	782,691
Interest and fiscal charges	428,462	428,462	416,253	416,253
Total expenses	<u>\$ 48,267,596</u>	<u>\$ 41,387,381</u>	<u>\$ 45,958,069</u>	<u>\$ 38,987,072</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 85.49% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.75%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund deficit of \$3,645,067, which is lower than last year's deficit of \$3,885,520 (which has been restated in Note 3.A in the notes to the basic financial statements). The overall decrease in fund deficit is due to slightly decreasing expenditures. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Deficit <u>June 30, 2005</u>	Restated Fund Balance/(Deficit) <u>June 30, 2004</u>	Increase/ (Decrease)
General	\$ (2,790,200)	\$ (4,079,886)	\$ 1,289,686
Debt Service	(838,924)	189,560	(1,028,484)
Other Governmental	<u>(15,943)</u>	<u>4,806</u>	<u>(20,749)</u>
Total	<u>\$ (3,645,067)</u>	<u>\$ (3,885,520)</u>	<u>\$ 240,453</u>

General Fund

During fiscal year 2005, the District's general fund deficit decreased \$1,289,686. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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	2005	Restated 2004	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 17,743,433	\$ 19,640,655	(9.66) %
Tuition	1,579,817	1,785,767	(11.53) %
Earnings on investments	74,243	42,578	74.37 %
Intergovernmental	15,575,633	15,136,496	2.90 %
Other revenues	<u>382,531</u>	<u>1,144,431</u>	(66.57) %
 Total	 <u>\$ 35,355,657</u>	 <u>\$ 37,749,927</u>	 (6.34) %
<u>Expenditures</u>			
Instruction	\$ 27,258,306	\$ 24,578,540	10.90 %
Support services	14,672,443	13,911,518	5.47 %
Extracurricular activities	536,128	628,449	(14.69) %
Facilities acquisition and construction	189,304	-	100.00 %
Capital outlay	-	1,021,250	(100.00) %
Debt service	<u>268,814</u>	<u>228,542</u>	17.62 %
 Total	 <u>\$ 42,924,995</u>	 <u>\$ 40,368,299</u>	 6.33 %

The most significant increase in revenues occurred in earnings on investments which were due to increases in interest rates by the Federal Reserve during 2005.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget numerous times. For the general fund, original budgeted revenues and other financing sources were \$38,546,102 and final budgeted revenues and other financing sources were \$43,565,245. The original budgeted revenues were based on conservative estimates which were increased during the year for a total increase of \$5,019,143. Actual revenues and other financing sources for fiscal year 2005 were \$43,361,008. This represents a \$204,237 decrease from the final budgeted revenues, primarily due to the estimated refunds of prior year expenditures which were not received during fiscal year 2005.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$34,102,652 were increased throughout the year by \$8,940,767 to \$43,043,419 in the final budget. The original appropriations were budgeted in accordance with estimated resources available on the original amended certificate of estimated resources which were based on conservative estimates. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$43,040,808, which was \$2,611 less than the final budget appropriations.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Debt Service

During fiscal year 2005, the District's debt service fund balance decreased by \$1,028,484 due to transfers out in the amount of \$5,649,893. The table that follows assists in illustrating the financial activities of the debt service fund.

	2005 <u>Amount</u>	2004 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,369,218	\$ 1,081,219	396.59 %
Intergovernmental	75,686	75,560	0.17 %
Earnings on investments	38,604	-	100.00 %
Total	<u>\$ 5,483,508</u>	<u>\$ 1,156,779</u>	374.03 %
<u>Expenditures</u>			
Supporting Services	\$ 8,059	\$ 8,303	(2.94) %
Debt service:			
Principal retirement	522,364	810,364	(35.54) %
Interest and fiscal charges	<u>331,676</u>	<u>366,599</u>	(9.53) %
Total	<u>\$ 862,099</u>	<u>\$ 1,185,266</u>	(27.27) %

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$11,628,295 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 1,278,407	\$ 1,278,407
Land improvements	841,552	838,226
Building and improvements	7,220,621	7,020,944
Furniture and equipment	1,876,708	1,857,832
Vehicles	<u>411,007</u>	<u>392,822</u>
Total	<u>\$ 11,628,295</u>	<u>\$ 11,388,231</u>

The overall increase in capital assets of \$240,064 is due to additions to capital assets for 2005 totaling \$1,206,379, which exceeded depreciation expense in 2005 of \$951,840. Disposals totaled \$14,475 (net of accumulated depreciation) in 2005.

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Debt Administration

At June 30, 2005, the District had \$10,846,136 in general obligation bonds, asbestos removal loans, IP phone system loans, tax anticipation notes and capital lease obligations outstanding. Of this total, \$1,276,077 is due within one year and \$9,570,059 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
Governmental obligation bonds	\$ 6,621,000	\$ 7,029,000
Asbestos removal loan	197,727	224,091
IP phone system loan	391,000	479,000
Tax anticipation notes	3,100,000	-
Capital Leases	536,409	727,362
Total	\$ 10,846,136	\$ 8,459,453

At June 30, 2005, the District's unvoted debt margin was \$790,872.

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

Current Related Financial Activities

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

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

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

Contacting the District's Financial Management

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 454,028
Receivables:	
Taxes	25,551,781
Accounts	18,938
Intergovernmental	206,492
Materials and supplies inventory	135,494
Capital assets:	
Land	1,278,407
Depreciable capital assets, net	10,349,888
Total capital assets, net.	11,628,295
 Total assets.	 37,995,028
Liabilities:	
Accounts payable.	392,649
Accrued wages and benefits	3,303,416
Pension obligation payable.	1,071,582
Intergovernmental payable	257,001
Deferred revenue	23,700,416
Accrued interest payable	31,052
Claims payable	644,006
Long-term liabilities:	
Due within one year.	1,502,002
Due in more than one year	11,869,795
 Total liabilities	 42,771,919
Net Assets:	
Invested in capital assets, net of related debt.	3,882,159
Restricted for:	
Capital projects	2,551
Locally funded programs.	6,005
State funded programs	55,857
Federally funded programs.	48,116
Student activities	21,708
Other purposes	11,000
Unrestricted (deficit)	(8,804,287)
 Total net assets (deficit)	 \$ (4,776,891)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions		
Governmental activities:					
Instruction:					
Regular	\$ 21,121,976	\$ 1,551,920	\$ 362,995	\$ 44,335	\$ (19,162,726)
Special	5,712,325	-	2,297,910	-	(3,414,415)
Vocational	991,981	17,428	59,208	-	(915,345)
Adult education	1,580	1,779	-	-	199
Other	2,650,881	85,908	-	-	(2,564,973)
Support services:					
Pupil	2,274,001	-	73,851	-	(2,200,150)
Instructional staff	1,672,926	9,094	150,165	-	(1,513,667)
Board of education	114,224	-	-	-	(114,224)
Administration	2,981,654	-	15,144	-	(2,966,510)
Fiscal	1,017,339	-	7,494	-	(1,009,845)
Business	369,187	-	-	-	(369,187)
Operations and maintenance	4,911,841	195,585	44,991	-	(4,671,265)
Pupil transportation	1,127,432	22,055	-	-	(1,105,377)
Central	216,382	-	4,140	-	(212,242)
Operation of non-instructional services:					
Non-instructional services	167,235	402	180,141	-	13,308
Food service operations	1,719,807	1,008,467	529,931	-	(181,409)
Extracurricular activities	788,363	217,267	5	-	(571,091)
Interest and fiscal charges	428,462	-	-	-	(428,462)
Total governmental activities	\$ 48,267,596	\$ 3,109,905	\$ 3,725,975	\$ 44,335	(41,387,381)

General Revenues:

Property taxes levied for:	
General purposes	17,973,709
Debt service	5,371,991
Grants and entitlements not restricted to specific programs	15,651,319
Investment earnings	119,317
Payment in lieu of taxes	85,427
Miscellaneous	85,456
Total general revenues	39,287,219
Change in net assets	(2,100,162)
Net assets (deficit) at beginning of year (restated)	(2,676,729)
Net assets (deficit) at end of year	\$ (4,776,891)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ -	\$ 451,314	\$ 451,314
Receivables:				
Taxes	24,729,989	821,792	-	25,551,781
Accounts	14,128	-	1,592	15,720
Intergovernmental	72,203	-	134,289	206,492
Due from other funds	928,195	-	178,680	1,106,875
Materials and supplies inventory	106,983	-	28,511	135,494
Total assets	<u>\$ 25,851,498</u>	<u>\$ 821,792</u>	<u>\$ 794,386</u>	<u>\$ 27,467,676</u>
Liabilities:				
Accounts payable	\$ 141,720	\$ -	\$ 250,929	\$ 392,649
Accrued wages and benefits	3,193,023	-	110,393	3,303,416
Compensated absences payable	408,200	-	-	408,200
Pension obligation payable	987,519	-	84,063	1,071,582
Intergovernmental payable	173,256	-	83,745	257,001
Due to other funds	-	873,414	233,461	1,106,875
Deferred revenue	23,737,980	787,302	47,738	24,573,020
Total liabilities	<u>28,641,698</u>	<u>1,660,716</u>	<u>810,329</u>	<u>31,112,743</u>
Fund Balances:				
Reserved for encumbrances	27,527	-	70,278	97,805
Reserved for materials and supplies inventory	106,983	-	28,511	135,494
Reserved for property tax unavailable for appropriation	1,047,320	34,490	-	1,081,810
Unreserved, undesignated (deficit), reported in:				
General fund	(3,972,030)	-	-	(3,972,030)
Special revenue funds	-	-	(117,283)	(117,283)
Debt service fund	-	(873,414)	-	(873,414)
Capital projects funds	-	-	2,551	2,551
Total fund balances (deficit)	<u>(2,790,200)</u>	<u>(838,924)</u>	<u>(15,943)</u>	<u>(3,645,067)</u>
Total liabilities and fund balances	<u>\$ 25,851,498</u>	<u>\$ 821,792</u>	<u>\$ 794,386</u>	<u>\$ 27,467,676</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances (deficit)		\$ (3,645,067)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,628,295
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		872,604
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(638,074)
In the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(31,052)
Long-term liabilities, including bonds, notes and lease obligations payable are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$ (2,117,461)	
General obligation bonds payable	(6,621,000)	
Loans payable	(588,727)	
Tax anticipation note payable	(3,100,000)	
Capital lease obligation payable	(536,409)	
Total		(12,963,597)
Net assets (deficit) of governmental activities		\$ (4,776,891)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 17,743,433	\$ 5,369,218	\$ -	\$ 23,112,651
Tuition.	1,579,817	-	1,779	1,581,596
Charges for services.	-	-	1,008,467	1,008,467
Transportation fees	22,055	-	-	22,055
Earnings on investments.	74,243	38,604	6,470	119,317
Classroom materials and fees	55	-	137,225	137,280
Extracurricular.	85,853	-	304,862	390,715
Rentals.	195,585	-	-	195,585
Other local revenues.	78,983	-	29,176	108,159
Other revenue	-	-	24,692	24,692
Intergovernmental - State	15,366,165	75,686	1,158,016	16,599,867
Intergovernmental - Federal.	209,468	-	2,533,800	2,743,268
Total revenues.	<u>35,355,657</u>	<u>5,483,508</u>	<u>5,204,487</u>	<u>46,043,652</u>
Expenditures:				
Current:				
Instruction:				
Regular	20,082,993	-	632,235	20,715,228
Special	3,652,004	-	2,093,473	5,745,477
Vocational	872,428	-	85,566	957,994
Adult education	-	-	1,580	1,580
Other.	2,650,881	-	-	2,650,881
Support services:				
Pupil.	2,170,309	-	74,866	2,245,175
Instructional staff	1,441,857	-	166,343	1,608,200
Board of education	104,546	-	-	104,546
Administration.	2,931,025	-	13,864	2,944,889
Fiscal	985,300	8,059	6,000	999,359
Business	365,111	-	-	365,111
Operations and maintenance	5,341,915	-	46,072	5,387,987
Pupil transportation	1,078,333	-	-	1,078,333
Central.	254,047	-	2,258	256,305
Operation of non-instructional services:				
Non-instructional services.	-	-	188,937	188,937
Food service operations	-	-	1,689,537	1,689,537
Extracurricular activities	536,128	-	224,505	760,633
Facilities acquisition and construction	189,304	-	-	189,304
Debt service:				
Principal retirement	190,953	522,364	-	713,317
Interest and fiscal charges	77,861	331,676	-	409,537
Total expenditures	<u>42,924,995</u>	<u>862,099</u>	<u>5,225,236</u>	<u>49,012,330</u>
Excess of revenues over (under) expenditures.	<u>(7,569,338)</u>	<u>4,621,409</u>	<u>(20,749)</u>	<u>(2,968,678)</u>
Other financing sources (uses):				
Transfers in	5,925,431	-	398	5,925,829
Transfers (out)	(166,407)	(5,649,893)	(398)	(5,816,698)
Issuance of notes.	3,100,000	-	-	3,100,000
Total other financing sources (uses)	<u>8,859,024</u>	<u>(5,649,893)</u>	<u>-</u>	<u>3,209,131</u>
Net change in fund balances	1,289,686	(1,028,484)	(20,749)	240,453
Fund balances (deficit) at beginning of year (restated)	<u>(4,079,886)</u>	<u>189,560</u>	<u>4,806</u>	<u>(3,885,520)</u>
Fund deficits at end of year.	<u>\$ (2,790,200)</u>	<u>\$ (838,924)</u>	<u>\$ (15,943)</u>	<u>\$ (3,645,067)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds		\$ 240,453
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital asset additions	\$ 1,206,379	
Current year depreciation	<u>(951,840)</u>	
Total		254,539
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.		
		(14,475)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	318,476	
Tuition	(241,981)	
Intergovernmental	<u>47,287</u>	
Total		123,782
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets.		
		713,317
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expenses when due.		
		(18,925)
The issuance of long-term tax anticipation notes are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(3,100,000)
Some expenses, such as compensated absences reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		
		(53,227)
Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.		
		<u>(245,626)</u>
Change in net assets of governmental activities		<u>\$ (2,100,162)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 14,262,935	\$ 16,720,109	\$ 16,720,109	\$ -
Tuition.	1,378,790	1,619,622	1,619,622	-
Transportation fees.	18,814	22,055	22,055	-
Earnings on investments.	60,921	71,416	74,243	2,827
Extracurricular.	62,485	85,853	85,853	-
Classroom materials and fees	40	55	55	-
Rentals.	166,842	195,585	195,585	-
Other local revenues	144,569	110,861	90,467	(20,394)
Intergovernmental - State	13,107,965	15,366,165	15,366,165	-
Intergovernmental - Federal.	178,685	209,468	209,468	-
Total revenue	29,382,046	34,401,189	34,383,622	(17,567)
Expenditures:				
Current:				
Instruction:				
Regular	15,864,362	20,017,758	19,929,412	88,346
Special.	2,870,190	3,625,664	3,610,515	15,149
Vocational.	699,775	883,966	880,272	3,694
Other.	2,330,557	2,930,790	2,915,763	15,027
Support services:				
Pupil.	1,712,431	2,163,167	2,154,129	9,038
Instructional staff	1,144,655	1,445,945	1,439,903	6,042
Board of education	79,979	101,031	100,609	422
Administration.	2,339,847	2,955,728	2,943,378	12,350
Fiscal	637,221	804,946	819,900	(14,954)
Business	287,095	362,662	361,147	1,515
Operations and maintenance.	4,176,588	5,275,925	5,253,880	22,045
Pupil transportation	866,086	1,094,052	1,089,481	4,571
Central.	202,326	255,581	254,513	1,068
Extracurricular activities.	537,592	679,093	676,256	2,837
Facilities acquisition and construction.	150,488	190,098	189,304	794
Debt Service:				
Principle retirement.	197,908	250,000	250,000	-
Interest and fiscal charges	5,552	7,013	5,939	1,074
Total expenditures	34,102,652	43,043,419	42,874,401	169,018
Excess of revenues over (under) expenditures.	<u>(4,720,606)</u>	<u>(8,642,230)</u>	<u>(8,490,779)</u>	<u>151,451</u>
Other financing sources (uses):				
Proceeds on sale of notes.	8,700,000	8,700,000	8,700,000	-
Transfers in	275,537	275,537	275,537	-
Transfers (out)	-	-	(166,407)	(166,407)
Refund of prior year expenditures.	188,519	188,519	1,849	(186,670)
Total other financing sources (uses)	9,164,056	9,164,056	8,810,979	(353,077)
Net change in fund balance	4,443,450	521,826	320,200	(201,626)
Fund balance at beginning of year (restated)	346,430	346,430	346,430	-
Prior year encumbrances appropriated	224,450	224,450	224,450	-
Fund balance at end of year	\$ 5,014,330	\$ 1,092,706	\$ 891,080	\$ (201,626)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 2,714
Receivables:	
Accounts	3,218
Total assets	5,932
Liabilities:	
Claims payable	644,006
Total liabilities	644,006
Net assets:	
Unrestricted (deficit)	(638,074)
Total net assets (deficit)	\$ (638,074)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Funds
	<u> </u>
Operating revenues:	
Other operating revenues	\$ 4,905,778
Total operating revenues	<u>4,905,778</u>
 Operating expenses:	
Purchased services	146,145
Claims expense	<u>4,896,128</u>
Total operating expenses	<u>5,042,273</u>
 Operating loss before transfers.	(136,495)
 Transfer in	166,407
Transfer out	<u>(275,538)</u>
 Change in net assets.	(245,626)
 Net assets (deficit) at beginning of year . .	<u>(392,448)</u>
 Net assets (deficit) at end of year.	<u><u>\$ (638,074)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from charges for services	\$ 4,902,597
Cash payments for purchased services	(146,145)
Cash payments for claims.	<u>(4,645,083)</u>
Net cash provided by operating activities	<u>111,369</u>
Cash flows from noncapital financing activities:	
Cash received from transfers in.	166,407
Cash payment from transfers out	<u>(275,538)</u>
Net cash used in noncapital financing activities.	<u>(109,131)</u>
Net increase in cash and cash equivalents	2,238
Cash and cash equivalents at beginning of year. . .	<u>476</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,714</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (136,495)
Changes in assets and liabilities:	
Increase in accounts receivable.	(3,181)
Increase in claims payable	<u>251,045</u>
Net cash provided by operating activities	<u><u>\$ 111,369</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 36,483	\$ 381,242
Receivables:		
Accounts	<u>67</u>	<u>-</u>
Total assets.	<u>36,550</u>	<u>\$ 381,242</u>
Liabilities:		
Accounts payable.	-	\$ 11,635
Intergovernmental payable	-	305,606
Due to students	<u>-</u>	<u>64,001</u>
Total liabilities	<u>-</u>	<u>\$ 381,242</u>
Net Assets:		
Held in trust for scholarships	<u>36,550</u>	
Total net assets	<u>\$ 36,550</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 696
Gifts and contributions.	4,600
	5,296
Deductions:	
Scholarships awarded	1,999
	3,297
Change in net assets	3,297
Net assets at beginning of year (restated) .	33,253
Net assets at end of year	\$ 36,550

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 7 elementary schools, 3 middle schools, and 1 comprehensive high school. The District employs 245 non-certified and 422 certified full-time and part-time employees to provide services to approximately 5,381 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations' resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

FISCAL AGENT

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

MEO/SERRC is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The District serves as fiscal agent for MEO/SERRC which is accounted for in an agency fund.

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Network for Educational Technology (NEOnet)

NEOnet is a jointly governed organization among sixteen school districts and the Summit County Educational Service Center that was formed July 1, 1995. NEOnet was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to improve administrative and instructional functions of member districts. The seven-member board of directors consists of four superintendents, two members of the treasurers' committee and one member of the student services subcommittee. The degree of control exercised by any participating school district is limited to its representation on the assembly, which elects the board of directors, who exercises total control over the operation of NEOnet including budgeting, appropriating, contracting and designating management. All revenues are generated from State funding and an annual fee per student to participating districts. The Summit County Educational Service Center is the fiscal agent of NEOnet. Financial information is available from the Treasurer of the Summit County Educational Service Center, 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221. During the current fiscal year, the School District contributed \$9,448 to NEOnet.

Six District Educational Compact (Compact)

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

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

GOVERNMENTAL FUNDS

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the repayment of debt.

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

PROPRIETARY FUND

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has five agency funds, the largest of which accounts for resources of the Mid-Eastern Ohio Special Educational Regional Resource Center (MEO/SERRC).

C. Basis of Presentation and Measurement Focus

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 on the fund financial statements. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

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

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Summit County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level for all funds, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

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

5. Any revisions that alter the total of any fund appropriation at the legal level of control must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. The final budget figures, which appear in the statements of budgetary comparisons, represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.
8. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the debt service fund during fiscal year 2005 amounted to \$74,243 which includes \$38,604 assigned from other District funds.

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

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

G. Inventory

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

Inventory consists of supplies, donated food and purchased food.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Estimates

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

N. Net Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The District has presented a prior period adjustment to reclassify the presentation of certain funds. An enterprise fund previously reported a part of the general fund has been reclassified as a special revenue fund and certain funds previously reported as private-purpose trust funds and agency funds have been reclassified as special revenue funds or part of the general fund.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 and reclassification of funds had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (3,718,931)	\$ 189,560	\$ (16,709)	\$ (3,546,080)
Reclassification of funds	(41,043)	-	48,022	6,979
GASB Technical Bulletin No. 2004-2	(319,912)	-	(26,507)	(346,419)
Restated Fund Balances, June 30, 2004	<u>\$ (4,079,886)</u>	<u>\$ 189,560</u>	<u>\$ 4,806</u>	<u>\$ (3,885,520)</u>

The reclassifications of funds also affected the net assets as follows:

	<u>Governmental Activities</u>
Net assets, June 30, 2004	\$ (2,683,708)
Reclassification of funds	6,979
Restated Net Assets, June 30, 2004	<u>\$ (2,676,729)</u>

The reclassifications of funds also affected the general fund budgetary statement as follows:

	<u>General</u>
Fund Balance, June 30, 2004	\$ 81,896
Reclassification of funds	264,534
Restated Fund Balance, June 30, 2004	<u>\$ 346,430</u>

The reclassification of funds also affected the private-purpose trust fund net assets as follows:

	<u>Private-Purpose Trust</u>
Net assets, June 30, 2004	\$ 34,926
Reclassification of funds	(1,673)
Restated Net Assets, June 30, 2004	<u>\$ 33,253</u>

B. Noncompliance

In noncompliance with Ohio Revised Code Section 5705.39, the following funds had appropriations in excess of estimated resources for the year ended June 30, 2005:

<u>Fund Type</u>	<u>Fund</u>	<u>Excess</u>
Debt Service	Debt Service	\$873,414
Special Revenue	Food Service	66,791
Special Revenue	Disadvantaged Pupil Impact Aid	45,653
Special Revenue	Student Intervention	21,705

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

The District had negative fund balance in the funds listed below, indicating that revenue from other funds were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10. For GAAP purposes this amount has been reported as a fund liability.

<u>Fund Type</u>	<u>Fund</u>	<u>Excess</u>
Debt Service	Debt Service	\$873,414
Special Revenue	Food Service	66,791
Special Revenue	Disadvantaged Pupil Impact Aid	45,653
Special Revenue	Student Intervention	21,705

C. Deficit Fund Balance

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Major Funds</u>	<u>Deficit</u>
General	\$ 3,868,482
Debt Service	838,924
<u>Nonmajor Funds</u>	
Food Service	52,728
EMIS	6,607
Entry Year Programs	159
DPIA	50,333
Ohio Reads	83
Student Intervention	203
Title III	720
Title VI-B	288,832
Title I	16,592
Title II-A	5,646
Miscellaneous Federal Grants	1,087

The General, EMIS, Entry Year Programs, Ohio Reads, Title III, Title I, Title II-A and Miscellaneous Federal Grants funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. The Food Service, DPIA, Student Intervention, Title VI-B and Debt Service funds had cash basis deficits at year end.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$(295,982), exclusive of the \$355,000 repurchase agreement included in investments below. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, the District's entire bank balance of \$9,469 was covered by Federal Deposit Insurance Corporation.

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

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Investment Maturities</u>	
	<u>Balance at Fair Value</u>	<u>6 months or less</u>
Repurchase Agreement	\$ 355,000	\$ 355,000
STAR Ohio	<u>812,735</u>	<u>812,735</u>
	<u>\$ 1,167,735</u>	<u>\$ 1,167,735</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 355,000	30.40
STAR Ohio	812,735	69.60
	<u>\$ 1,167,735</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>		
Carrying amount of deposits	\$	(295,982)
Investments		<u>1,167,735</u>
Total	\$	<u>871,753</u>
 <u>Cash and investments per Statement of Net Assets</u>		
Governmental activities	\$	454,028
Private-purpose trust funds		36,483
Agency funds		<u>381,242</u>
Total	\$	<u>871,753</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2005 as reported on the fund financial statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 233,461
General fund	Debt Service fund	694,734
Nonmajor Governmental Funds	Debt Service fund	<u>178,680</u>
Total Due To/From Other Funds		<u>\$ 1,106,875</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to General fund from:	
Debt Service	\$ 5,649,893
Internal Service	275,538
Transfers to Internal Service from:	
General Fund	166,407
Transfers to Nonmajor Governmental funds from:	
Nonmajor Governmental funds	<u>398</u>
Total Transfers	<u>\$ 6,092,236</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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.

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Summit County. The County Fiscal Officer periodically advances to the District their portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 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, 2005 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, 2005 was \$1,047,320 in the general fund and \$34,490 in the bond retirement debt service fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$23,996 in the general fund and \$3,758 in the debt service fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 739,322,600	94.03	\$ 742,162,170	93.84
Public Utility Personal	10,606,300	1.35	10,373,400	1.31
Tangible Personal Property	<u>36,288,936</u>	<u>4.62</u>	<u>38,336,064</u>	<u>4.85</u>
Total	<u>\$ 786,217,836</u>	<u>100.00</u>	<u>\$ 790,871,634</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 62.00		\$ 62.00	

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 25,551,781
Accounts	18,938
Intergovernmental	<u>206,492</u>
Total	<u>\$ 25,777,211</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance at <u>06/30/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>06/30/05</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,278,407	\$ -	\$ -	\$ 1,278,407
Total capital assets, not being depreciated	<u>1,278,407</u>	<u>-</u>	<u>-</u>	<u>1,278,407</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,209,074	44,743	-	2,253,817
Buildings and improvements	22,596,960	590,485	(32,565)	23,154,880
Furniture and equipment	4,243,715	444,739	(14,858)	4,673,596
Vehicles	<u>1,358,121</u>	<u>126,412</u>	<u>-</u>	<u>1,484,533</u>
Total capital assets, being depreciated	<u>30,407,870</u>	<u>1,206,379</u>	<u>(47,423)</u>	<u>31,566,826</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,370,848)	(41,417)	-	(1,412,265)
Buildings and improvements	(15,576,016)	(390,808)	32,565	(15,934,259)
Furniture and equipment	(2,385,883)	(411,388)	383	(2,796,888)
Vehicles	<u>(965,299)</u>	<u>(108,227)</u>	<u>-</u>	<u>(1,073,526)</u>
Total accumulated depreciation	<u>(20,298,046)</u>	<u>(951,840)</u>	<u>32,948</u>	<u>(21,216,938)</u>
Governmental activities capital assets, net	<u>\$ 11,388,231</u>	<u>\$ 254,539</u>	<u>\$ (14,475)</u>	<u>\$ 11,628,295</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 463,509
Special	5,550
Vocational	13,200
<u>Support Services:</u>	
Pupil	12,029
Instructional staff	64,210
Board of education	9,678
Administration	11,436
Operations and maintenance	85,276
Pupil transportation	107,077
Central	115,684
Non-instructional services	5,820
Extracurricular activities	42,459
Food service operations	<u>15,912</u>
Total depreciation expense	<u>\$ 951,840</u>

NOTE 9 - OPERATING LEASE

The District has entered into an operating lease, for a 10-year period commencing on July 1, 2002. The lease is with the Summit County Educational Service Center for facilities to house the offices and functions of the Service Center. The total amount of monthly payments received for the fiscal year totaled \$96,794. Either party upon one year's advance written notice, with the termination date being June 30, can initiate the early termination of this lease. However, the District agrees that it shall not have the right to terminate the lease until the beginning of the third year of the lease.

The cost of the facilities being leased was \$1,231,677 with a current book value of \$272,295. Depreciation on the facilities for fiscal year ending June 30, 2005 was \$23,200 with accumulated depreciation of \$959,382. Each July 1, the annual rent is increased by the same percentage as the Consumer Price Index over the previous twelve-month period (July 1 - June 30).

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$1,178,802 on the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$190,953 paid by the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE – (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2006	\$ 189,303
2007	169,722
2008	110,981
2009	55,989
2010	37,658
2011	<u>18,829</u>
Total minimum lease payment	582,482
Less: amount representing interest	<u>(46,073)</u>
Present value of minimum lease payments	<u>\$ 536,409</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance at June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at June 30, 2005</u>	<u>Amounts Due in One Year</u>
General Obligation Bonds:					
1999 School improvement bonds	\$ 6,585,000	\$ -	\$ (320,000)	\$ 6,265,000	\$ 330,000
2002 School improvement bonds	<u>444,000</u>	<u>-</u>	<u>(88,000)</u>	<u>356,000</u>	<u>89,000</u>
Total General Obligation Bonds	<u>7,029,000</u>	<u>-</u>	<u>(408,000)</u>	<u>6,621,000</u>	<u>419,000</u>
Long-term Loans:					
2002 IP Phone System Loan	479,000	-	(88,000)	391,000	92,000
1993 Asbestos Removal Loan	<u>224,091</u>	<u>-</u>	<u>(26,364)</u>	<u>197,727</u>	<u>26,364</u>
Total Loans Payable	<u>703,091</u>	<u>-</u>	<u>(114,364)</u>	<u>588,727</u>	<u>118,364</u>
Tax Anticipation Notes:					
TANs 4.27%	<u>-</u>	<u>3,100,000</u>	<u>-</u>	<u>3,100,000</u>	<u>569,264</u>
Other Long-term Obligations					
Capital lease obligations	727,362	-	(190,953)	536,409	169,449
Compensated absences	<u>2,064,234</u>	<u>575,342</u>	<u>(113,915)</u>	<u>2,525,661</u>	<u>225,925</u>
Total Other Long-term Obligations	<u>2,791,596</u>	<u>575,342</u>	<u>(304,868)</u>	<u>3,062,070</u>	<u>395,374</u>
Total	<u>\$ 10,523,687</u>	<u>\$ 3,675,342</u>	<u>\$ (827,232)</u>	<u>\$ 13,371,797</u>	<u>\$ 1,502,002</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

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

Tax Anticipation Notes:

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

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

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

Fiscal Year Ending June 30	General Obligation Bonds			Long-term Loans		
	Principal	Interest	Total	Principal	Interest	Total
2006	419,000	297,117	716,117	118,364	14,600	132,964
2007	434,000	280,308	714,308	121,364	10,633	131,997
2008	449,000	262,742	711,742	126,364	6,498	132,862
2009	464,000	244,308	708,308	130,364	2,194	132,558
2010	390,000	226,445	616,445	26,363	-	26,363
2011-2015	2,250,000	808,606	3,058,606	65,908	-	65,908
2016-2019	2,215,000	217,804	2,432,804	-	-	-
Total	<u>\$ 6,621,000</u>	<u>\$ 2,337,330</u>	<u>\$ 8,958,330</u>	<u>\$ 588,727</u>	<u>\$ 33,925</u>	<u>\$ 622,652</u>

Fiscal Year Ending June 30	Tax Anticipation Notes		
	Principal	Interest	Total
2006	569,264	132,370	701,634
2007	593,572	108,062	701,634
2008	647,650	82,717	730,367
2009	645,345	56,289	701,634
2010	644,169	28,733	672,902
Total	<u>\$ 3,100,000</u>	<u>\$ 408,171</u>	<u>\$ 3,508,171</u>

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2005, are a voted debt margin of \$63,718,523 and an unvoted debt margin of \$790,872.

NOTE 12 - NOTES PAYABLE

In 2004, the District issued tax anticipation notes in advance of property tax collections, depositing the proceeds in the general fund. These notes were necessary for short-term borrowing by the District.

Short-term debt activity for the year ended June 30, 2005 was as follows:

	<u>Balance at</u> <u>June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at</u> <u>June 30, 2005</u>
Tax Anticipation Notes, 2.50%	\$ 250,000	\$ -	\$ (250,000)	\$ -
Tax Anticipation Notes, 2.19%	-	1,800,000	(1,800,000)	-
Tax Anticipation Notes, 2.26%	-	1,800,000	(1,800,000)	-
Tax Anticipation Notes, 2.81%	-	<u>2,000,000</u>	<u>(2,000,000)</u>	-
Total notes payable	<u>\$ 250,000</u>	<u>\$ 5,600,000</u>	<u>\$ (5,850,000)</u>	<u>\$ -</u>

NOTE 13 - RISK MANAGEMENT

A. General Risk

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

	<u>Coverage</u>	<u>Deductible</u>
Property Insurance	\$ 115,182,261	\$ 10,000
Liability Insurance	1,000,000/5,000,000	1,000
Auto Insurance	1,000,000	1,000

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - RISK MANAGEMENT – (Continued)

B. Health Insurance

The claims liability of \$644,006 reported in the basic financial statements at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claim. A summary of changes in self-insurance claims for the years ended June 30, 2005 and June 30, 2004:

	Balance at <u>beginning of year</u>	Current year <u>claims</u>	Claim <u>Payments</u>	Balance at <u>End of Year</u>
2005	\$ 392,961	\$ 4,896,128	\$ (4,645,083)	\$ 644,006
2004	-	745,317	(352,356)	392,961

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$682,296, \$602,168, and \$482,301, respectfully 45% has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003, \$377,394 represents the unpaid portion for 2005.

B. State Teachers Retirement System

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 14 - PENSION PLANS - (Continued)

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,768,914, \$2,462,854 and \$2,375,802; 83% has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$461,727 represents the unpaid portion for 2005. Contributions to the DC and Combined Plans for fiscal year 2005 were \$33,959 made by the District and \$71,700 made by the plan members.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$212,993 for fiscal year 2005.

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

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

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, District paid \$315,234 to fund health care benefits, including the surcharge.

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- (d) Certain funds that are classified as part of the general fund (GAAP basis) are reported in other fund types on a cash basis (budget basis). These items are reflected as “fund reclassifications”.

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 320,200
Net adjustment for revenue accruals	972,035
Net adjustment for expenditure accruals	(87,709)
Net adjustment for other sources/uses	48,045
Adjustment for encumbrances	<u>37,115</u>
GAAP basis	<u>\$ 1,289,686</u>

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2005.

B. Litigation

The District is not a party to legal proceedings at June 30, 2005.

C. School Funding Decision

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2004	\$ (773,123)	\$ -	\$ 190,065
Current year set-aside requirement	760,856	760,856	-
Removal of designation	-	-	(190,065)
Qualifying disbursements	<u>(890,706)</u>	<u>(974,402)</u>	<u>-</u>
Total	<u>\$ (902,973)</u>	<u>\$ (213,546)</u>	<u>\$ -</u>
Balance carried forward to FY 2006	<u>\$ (902,973)</u>	<u>\$ -</u>	<u>\$ -</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero. The negative amount may be carried forward to the next year for the textbook set-aside, however, the negative amount may not be carried forward for the capital maintenance set-aside. The Board of Education resolved to eliminate the reserve for budget stabilization during fiscal year 2005.

NOTE 19 - FINANCIAL CONDITION

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

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

In order to address the fiscal watch status, the District passed a plan called "Project Recovery." The multi-phased plan consists of four themes: 1) Improved fiscal accountability and operations; 2) seeking additional revenues through local, state and federal sources; 3) effective utilization of facilities and staffing; and 4) significant budgetary reductions and cost saving efforts. Details about each phase can be found on the District's website (www.cfalls.summit.k12.oh.us).

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CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation Program	N/A	10.550		\$ 56,634		\$ 56,634
National School Breakfast Program	N/A	10.553	\$ 23,439		\$ 23,439	
National School Lunch Program	N/A	10.555	382,954		382,954	
Total Child Nutrition Cluster			406,393	56,634	406,393	56,634
Team Nutrition Grants	N/A	10.574	1,950		1,950	
Total U.S. Department of Agriculture/Child Nutrition Cluster			408,343	56,634	408,343	56,634
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-AA-05, 6B-SF-05, 6B-SI-04, 6B-EC-05	84.027	2,760,529		2,904,813	
Special Education - Preschool Grant	PG-S1-05	84.173	30,847		32,028	
Total Special Education Cluster			2,791,376		2,936,841	
Title I Grants to Local Educational Agencies	C1-S1-05	84.010	289,702		630,671	
Innovative Education Program Strategies	C2-S1-05	84.298	42,037		48,550	
Safe and Drug Free Schools and Communities - State Grants	DR-S1-04, DR-S1-05	84.186	19,734		19,224	
English Language Acquisition Grant	T3-S1-05	84.365	30,251		30,252	
Technology Literacy Challenge Fund Grant	TJ-S1-04, TJ-S1-05	84.318	7,702		8,650	
State Improvement Grant	ST-S1-04, ST-S1-05	84.323	34,662		31,481	
Assistive Technology Infusion Project Grant (ATIP)	AT-S3-04	84.352A	109,706		109,596	
Improving Teacher Quality State Grant	TR-S1-05	84.367	167,931		193,722	
Total Department of Education			3,493,101		4,008,987	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (Medicaid)						
Community Alternative Funding System (CAFS)	N/A	93.778	187,552		187,552	
State Children's Health Insurance Program (SCHIP)	N/A	93.767	21,916		21,916	
Total U.S. Department of Health and Human Services			209,468		209,468	
Totals			\$ 4,110,912	\$ 56,634	\$ 4,626,798	\$ 56,634

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

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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 market value of the commodities received.

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

NOTE C - MEDICAL ASSISTANCE PROGRAM

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cuyahoga Falls City School District, Summit County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2006, wherein we noted the District is in Fiscal Watch. We also noted the fund balances/net assets have been restated for reclassifications and the implementation of GASB TB 2004-002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-001 and 2005-002. In a separate letter to the District's management dated February 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

February 10, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Cuyahoga Falls City School District, Summit County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Cuyahoga Falls City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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www.auditor.state.oh.us

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated February 10, 2006.

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

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

Betty Montgomery
Auditor of State

February 10, 2006

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster CFDA #84.027\84.173 and Medicaid Title XIX (CAFS) CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund. During fiscal year 2005, total appropriations exceeded total estimated resources at year end in the Debt Service Fund as follows:

<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
\$5,638,578	\$6,511,992	(\$873,414)

Other immaterial instances of noncompliance were noted at year end as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Food Service Fund	\$1,481,180	\$1,547,971	(\$66,791)
Disadvantaged Pupil Impact Aid Fund	22,663	68,316	(45,653)
Student Intervention Fund	87,587	109,292	(21,705)

The District should monitor appropriations versus estimated resources to help avoid overspending.

FINDING NUMBER 2005-002

Ohio Rev. Code Section 5705.10 requires money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At June 30, 2005, negative fund balances existed within the Debt Service Fund of (\$873,414). There were also immaterial instances of noncompliance in which negative fund balances existed at fiscal year end in the Food Service Fund of (\$66,791), the Disadvantaged Pupil Impact Aid Fund of (\$45,653) and the Student Intervention Fund of (\$21,705).

In addition, a test of the District's FINSUM (Financial Summary) Report throughout the year revealed negative fund balances within the Food Service Fund ranging from (\$12,796) to (\$48,376); the EMIS (Electronic Management Information System) Fund ranging from (\$8,995) to (\$22,441); the Disadvantaged Pupil Impact Aid Fund ranging from (\$47,125) to (\$65,388); the Title VI-B Fund ranging from (\$9,998) to (\$286,020); the Title III Fund ranging from (\$2,744) to (\$6,045); the Title I Fund ranging from (\$8,547) to (\$31,016); the Title IV Fund ranging from (\$1,314) to (\$7,805); and the Title IIA Fund ranging from (\$16,793) to (\$167,622).

To alleviate negative cash balances, the District should advance monies, from the General Fund as needed, to cover anticipated deficits. (See Auditor of State Bulletin 1997-003).

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code 5705.41 (B)	Yes	
2004-002	Ohio Rev. Code 5705.10	No	Not Corrected. See finding 2005-002
2004-003	Ohio Rev. Code 5705.41 (D)	No	Partially Corrected. See Management Letter.
2004-004	Payables	Yes	



**Auditor of State
Betty Montgomery**

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**CUYAHOGA FALLS CITY SCHOOL DISTRICT
SUMMIT COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 13, 2006**