



Mary Taylor, CPA
Auditor of State

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
TABLE OF CONTENTS**

	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget Basis (Non-GAAP) and Actual – General Fund	19
Statement of Net Assets – Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	21
Statement of Cash Flows – Proprietary Fund	22
Statement of Net Assets – Fiduciary Funds	23
Notes to the Basic Financial Statements	25
Federal Awards Receipts and Expenditures Schedule.....	53
Notes to the Federal Awards Receipts and Expenditures Schedule.....	54
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	55
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	57
Schedule of Findings	59
Schedule of Prior Audit Findings	63

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Garfield Heights City School District
Cuyahoga County
5640 Briarcliff Drive
Garfield Heights, Ohio 44125

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 Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 22 to the basic financial statements, the District restated the June 30, 2005 fund balance for the Building Fund and net assets for Governmental Activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

March 3, 2009

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Revenues accounted for \$36,089,819 in revenue or 83% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants, and contributions accounted for \$7,162,046 or 17% of total revenues of \$43,251,865.
- Total program expenses were \$41,791,953. Instructional expenses made up 49% of this total while support services accounted for 36%. Other expenses rounded out the remaining 15%.
- In total, net assets of governmental activities increased \$1,459,912, which represents over a 6,199% increase from 2005.

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

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

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 15. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Debt Service Fund, Permanent Improvement and the Building Fund.

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

Proprietary Funds – The School District maintains a proprietary fund. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 20.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds. The only fiduciary funds are agency funds.

The fiduciary fund financial statements begin on page 23.

Notes to the 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. The notes to the financial statements begin on page 25.

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

Table 1
Net Assets

	<u>2006</u>	<u>Restated 2005</u>
Assets		
Current and Other Assets	\$ 37,494,008	\$ 34,314,666
Capital Assets	<u>49,221,888</u>	<u>49,953,942</u>
Total Assets	<u>86,715,896</u>	<u>84,268,608</u>
Liabilities		
Long-Term Liabilities	61,474,479	62,884,845
Other Liabilities	<u>21,984,714</u>	<u>19,586,972</u>
Total Liabilities	<u>83,459,193</u>	<u>82,471,817</u>
Net Assets		
Invested in Capital Assets Net of Debt	1,094,735	(313,425)
Restricted	10,454,829	6,321,912
Unrestricted (Deficit)	<u>(8,292,861)</u>	<u>(4,211,696)</u>
Total Net Assets	<u>\$ 3,256,703</u>	<u>\$ 1,796,791</u>

Total assets increased by \$2.4 million. This increase was a result of increased taxes receivable. Total liabilities increased \$987,376 which was primarily due to increased deferred tax revenue and additional debt.

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Table 2 shows the changes in net assets for fiscal year 2006 as compared to 2005:

**Table 2
Statement of Activities**

	2006	Restated 2005
Program Revenues		
Charges for Services and Sales	\$ 1,235,880	\$ 1,168,665
Operating Grants, Interest and Contributions	5,926,166	4,901,330
General Revenues		
Property Taxes	15,046,188	17,167,217
Grants and Entitlements	19,717,184	16,243,773
Investments	601,427	272,438
Miscellaneous	725,020	414,152
Total Revenues	43,251,865	40,167,575
Program Expenses		
Instruction	20,554,846	17,853,192
Support Services	15,027,015	10,431,839
Operation of Non-Instructional Services	1,859,414	1,934,124
Food Service Operations	1,141,330	1,109,330
Extracurricular Activities	461,175	399,916
Interest and Fiscal Charges	2,588,516	2,582,334
Uniform School Supplies	155,023	147,871
Recreation	4,634	19,490
Total Program Expenses	41,791,953	34,478,096
Change in Net Assets	1,459,912	5,689,479
Net Assets Beginning of Year	1,796,791	(3,892,688)
Net Assets End of Year	\$3,256,703	\$1,796,791

Revenues increased \$3.1 million, primarily from an increase in state and basic aid unrestricted grants. Overall, program expenses increased over \$7.3 million over the prior year. Special instruction and operations and maintenance reported the majority of this increase.

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Governmental Activities

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

Table 3
Governmental Activities

	2006		Restated 2005	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 20,554,846	\$ (18,340,974)	\$ 17,853,192	\$ (15,678,568)
Support Services:				
Pupil and Instructional Staff	5,012,583	(3,665,425)	4,468,703	(3,930,138)
Board of Education, Administration, Fiscal and Business	4,155,140	(4,124,629)	4,195,483	(4,173,086)
Operation and Maintenance of Plant	4,692,299	(4,400,968)	715,585	(672,122)
Pupil Transportation	789,686	(789,686)	725,218	(723,524)
Central	377,307	(271,858)	326,850	(270,789)
Operation of Non-Instructional Services	1,859,414	6,728	1,934,124	(17,347)
Extracurricular Activities	461,175	(277,236)	399,916	(267,183)
Interest and Fiscal Charges	2,588,516	(2,588,516)	2,582,334	(2,582,334)
Food Services Operations	1,141,330	(17,686)	1,109,330	74,351
Uniform School Supplies	155,023	(155,023)	147,871	(147,871)
Recreation	4,634	(4,634)	19,490	(19,490)
Total Expenses	\$ 41,791,953	\$ (34,629,907)	\$ 34,478,096	\$ (28,408,101)

Instruction and student support services comprise 85% of governmental program expenses. Interest and fiscal charges were 6%. Interest expense was attributable to the outstanding bonds, and fiscal expenses including payments to the County Auditor(s) for administrative fees. All other expenses account for 9% of the total governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for the Garfield Heights City School District students.

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Financial Analysis of the Governmental Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$42,621,511 and expenditures of \$42,245,568. The net change in fund balance for the year was most significant in the permanent improvements capital projects fund, with an increase of \$2,031,351. The increase in fund balance for the permanent improvements capital projects fund was mainly due to a transfer from the debt service to retire short term debt used in 2005 by the Permanent Improvement Capital Project Fund.

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, there were no changes to the School District's overall general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual revenues of \$30,835,064 were over the final budgeted estimate of \$28,491,718. The primary factor of actual revenues exceeding the final estimated amounts by \$2,343,346 was due a conservative estimate for state and basic aid unrestricted revenue.

Final expenditures of \$30,413,219 were under the final appropriations of \$31,750,619 by \$1,337,400. There were no individually significant factors that contributed to this variance as all functional expenditure categories were under budgeted amounts.

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$49,221,888 invested in land, buildings, equipment, vehicles, and textbooks. Table 4 shows fiscal year 2006 balances compared with 2005.

Table 4
Capital Assets at June 30
Governmental Activities
(Net of Depreciation)

	<u>2006</u>	<u>Restated 2005</u>
Land	\$ 833,150	\$ 833,150
Land Improvements	743,311	772,426
Buildings and Improvements	45,921,932	46,254,765
Furniture and Equipment	923,001	1,000,562
Vehicles	398,591	67,647
Textbooks	308,098	531,587
Construction In Progress	93,805	93,805
Totals	<u>\$ 49,221,888</u>	<u>\$ 49,553,942</u>

The primary cause of the decrease in overall net capital assets of \$332,054 was the result of the depreciation exceeding acquisitions for the year.

Ohio law requires school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2006, this amounted to \$583,187 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks. See Note 8 of the basic financial statements for more detail of the School District capital assets.

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Debt

At June 30, 2006, the School District had \$55,787,986 in long-term general obligation bonds, which includes unamortized debt issuance premium (\$221,112) and accreted interest on capital appreciation bonds (\$94,599). The School District also reported \$2,796,563 in outstanding capital lease obligations as of year end. Table 5 summarizes bonds outstanding.

**Table 5
Outstanding Debt, at June 30**

	2006	Restated 2005
General Obligation Bonds:		
School Improvement Bonds-2001 5.39%, 12/26	\$ 38,897,275	\$ 39,237,275
Qualified Zone Academy Bonds	5,000,000	5,000,000
School Improvement Bonds-2004 4.370%, 12/26	9,030,000	9,520,000
Unamortized Premium on issuance	177,155	186,269
Capital Appreciation Bonds 7.284%	365,000	365,000
Capital Appreciation Bonds 7.125%	130,000	130,000
Accretion on \$365,000	70,185	40,137
Accretion on \$130,000	24,414	13,973
2006 School Improvement Bonds	2,050,000	0
Unamortized Premium on issuance	43,957	0
Total General Obligation Bonds	\$ 55,787,986	\$ 54,492,654

See Note 13 of the basic financial statements for more detail of the School District debt obligations.

Current Issues

As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district for new operating dollars was in November, 1992.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Thus, school districts dependent upon property taxes are hampered by a lack of property tax revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 34.8% of revenues for governmental activities for the School District in fiscal year 2006. Down from 42.7% in fiscal year 2005.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure and commercial business/property uncertainties. This has been made increasingly difficult with mandates in gifted education, rising utility costs, and increased special education services required for our students.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education 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 (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2006. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Allen Sluka, Treasurer/CFO at Garfield Heights City Schools, 5640 Briarcliff Drive, Garfield Heights, Ohio 44125-4199.

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Garfield Heights City School District
Cuyahoga County

Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 12,585,340
Cash and Cash Equivalents with Fiscal Agents	2,693,359
Receivables:	
Taxes	21,598,940
Accounts	4,174
Intergovernmental	612,195
Nondepreciable Capital Assets	926,955
Depreciable Capital Assets (Net)	48,294,933
 <i>Total Assets</i>	 86,715,896
Liabilities	
Accounts Payable	286,369
Contracts Payable	111,702
Accrued Wages and Benefits	2,919,881
Vacation Benefits Payable	25,796
Mature Compensated Absences Payable	166,343
Intergovernmental Payable	997,508
Early Retirement Incentive Payable	180,500
Deferred Revenue	17,296,615
Long Term Liabilities:	
Due Within One Year	1,780,491
Due Within More Than One Year	59,693,988
 <i>Total Liabilities</i>	 83,459,193
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,094,735
Restricted for:	
Capital Projects	8,261,087
Debt Service	1,219,108
Other Purposes	828,893
Set - Asides	145,741
Unrestricted	(8,292,861)
 <i>Total Net Assets</i>	 \$ 3,256,703

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

Statement of Activities
For the Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenues
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 14,539,486	\$ 476,578	\$ 418,409	\$ (13,644,499)
Special	4,344,585	25,304	1,286,661	(3,032,620)
Vocational	377,829	0	0	(377,829)
Other	1,292,946	0	0	(1,292,946)
Support Services:				
Pupils	2,924,920	0	1,005,742	(1,919,178)
Instructional Staff	2,087,663	0	341,416	(1,746,247)
Board of Education	101,187	0	0	(101,187)
Administration	2,449,348	0	30,511	(2,418,837)
Fiscal	940,059	0	0	(940,059)
Business	664,546	0	0	(664,546)
Operation and Maintenance of Plant	4,692,299	0	291,331	(4,400,968)
Pupil Transportation	789,686	0	0	(789,686)
Central	377,307	0	105,449	(271,858)
Operation of Non-Instructional Services	1,859,414	2,084	1,864,058	6,728
Food Service Operations	1,141,330	541,055	582,589	(17,686)
Uniform School Supplies	155,023	0	0	(155,023)
Recreation - Fitness Center	4,634	0	0	(4,634)
Extracurricular Activities	461,175	190,859	0	(270,316)
Interest and Fiscal Charges	2,588,516	0	0	(2,588,516)
Totals	\$ 41,791,953	\$ 1,235,880	\$ 5,926,166	(34,629,907)

General Revenues

Property Taxes Levied for:	
General Purposes	11,802,812
Debt Service	2,861,061
Capital Outlay	382,315
Grants and Entitlements not Restricted to Specific Programs	19,717,184
Investment Earnings	601,427
Miscellaneous	725,020
Total General Revenues	36,089,819
Change in Net Assets	1,459,912
Net Assets Beginning of Year, Restated	1,796,791
Net Assets End of Year	<u><u>\$ 3,256,703</u></u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Balance Sheet
Governmental Funds
June 30, 2006*

	General	Debt Service	Permanent Improvements Capital Projects	Building Fund Capital Projects	Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 4,200,023	\$ 463,575	\$ 97,950	\$ 6,116,694	\$ 802,700	\$ 11,680,942
Cash and Cash Equivalents:						
Restricted Cash	145,741	0	0	0	0	145,741
With Fiscal Agents	606,666	0	0	2,086,693	0	2,693,359
Receivables:						
Taxes	17,283,753	3,835,873	479,314	0	0	21,598,940
Accounts	20	0	0	0	4,154	4,174
Interfund	191,855	0	0	0	0	191,855
Intergovernmental	0	0	0	0	612,195	612,195
<i>Total Assets</i>	<u>\$ 22,428,058</u>	<u>\$ 4,299,448</u>	<u>\$ 577,264</u>	<u>\$ 8,203,387</u>	<u>\$ 1,419,049</u>	<u>\$ 36,927,206</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 171,967	\$ 0	\$ 25,002	\$ 0	\$ 89,400	\$ 286,369
Contracts Payable	0	0	0	111,702	0	111,702
Accrued Wages and Benefits	2,743,250	0	0	0	176,631	2,919,881
Vacation Benefits Payable	25,796	0	0	0	0	25,796
Mature Compensated Absences Payable	166,343	0	0	0	0	166,343
Interfund Payable	0	0	0	0	191,855	191,855
Due to Other Governments	935,880	0	0	0	61,628	997,508
Deferred Revenue	15,703,993	3,489,947	435,152	0	237,669	19,866,761
Early Retirement Incentive Payable	175,000	0	0	0	5,500	180,500
<i>Total Liabilities</i>	<u>19,922,229</u>	<u>3,489,947</u>	<u>460,154</u>	<u>111,702</u>	<u>762,683</u>	<u>24,746,715</u>
Fund Balances						
Fund Balance:						
Reserved for Encumbrances	445,319	0	19,750	146,041	223,041	834,151
Reserved for Bus Purchase Allowance	20,020	0	0	0	0	20,020
Reserved for Tax Revenue Unavailable for Appropriation	1,579,760	345,926	44,162	0	0	1,969,848
Reserved for Budget	125,721	0	0	0	0	125,721
Reserved for Debt Payments:						
Principal	606,666	0	0	0	0	606,666
Undesignated, Unreserved Reported in:						
General Fund	(273,435)	0	0	0	0	(273,435)
Special Revenue Funds	1,778	0	0	0	433,325	435,103
Debt Service Fund	0	463,575	0	0	0	463,575
Capital Projects Funds	0	0	53,198	7,945,644	0	7,998,842
<i>Total Fund Balances</i>	<u>2,505,829</u>	<u>809,501</u>	<u>117,110</u>	<u>8,091,685</u>	<u>656,366</u>	<u>12,180,491</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 22,428,058</u>	<u>\$ 4,299,448</u>	<u>\$ 577,264</u>	<u>\$ 8,203,387</u>	<u>\$ 1,419,049</u>	<u>\$ 36,927,206</u>

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006*

Total Governmental Fund Balances		\$ 12,180,491
 <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.		49,221,888
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds. These deferrals are attributed to:		
Grants	\$ 237,669	
Delinquent Property Taxes	<u>2,332,477</u>	2,570,146
 An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		 758,657
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
General Obligation Bonds	55,472,275	
Unamortized premium on Debt Issuance	221,112	
Accretion on Capital Appreciation Bonds	94,599	
Capital Lease Payable	2,796,563	
Compensated Absences - Sick Leave	<u>2,889,930</u>	<u>(61,474,479)</u>
 Net Assets of Governmental Activities		 <u>\$ 3,256,703</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006*

	General	Debt Service	Permanent Improvements Capital Projects	Building Fund Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 13,180,476	\$ 2,776,101	\$ 373,841	\$ 0	\$ 0	\$ 16,330,418
Intergovernmental	17,436,443	362,787	44,645	0	5,884,891	23,728,766
Investment Income	501,499	0	0	86,693	13,235	601,427
Tuition and Fees	476,578	0	0	0	5,572	482,150
Extracurricular Activities	0	0	0	0	187,371	187,371
Charges For Services	0	0	0	0	566,359	566,359
Miscellaneous	112,664	0	0	500,000	112,356	725,020
<i>Total Revenues</i>	<i>31,707,660</i>	<i>3,138,888</i>	<i>418,486</i>	<i>586,693</i>	<i>6,769,784</i>	<i>42,621,511</i>
Expenditures:						
Current:						
Instruction:						
Regular	12,977,891	0	37,963	0	343,845	13,359,699
Special	3,030,663	0	0	0	1,291,688	4,322,351
Vocational	373,727	0	0	0	0	373,727
Other	1,292,481	0	0	0	0	1,292,481
Support Services:						
Pupils	2,041,960	0	0	0	922,391	2,964,351
Instructional Staff	1,688,649	0	11,289	0	341,605	2,041,543
Board of Education	103,080	0	0	0	0	103,080
Administration	2,381,622	0	0	8,135	31,003	2,420,760
Fiscal	883,069	36,309	18,278	0	500	938,156
Business	661,463	0	0	0	0	661,463
Operation and Maintenance of Plant	3,992,030	0	282	0	287,618	4,279,930
Pupil Transportation	696,355	0	0	0	0	696,355
Central	271,525	0	0	0	104,973	376,498
Operation of Non-Instructional Services	0	0	0	0	1,848,974	1,848,974
Food Service Operations	0	0	0	0	1,089,845	1,089,845
Uniform School Supplies	155,023	0	0	0	0	155,023
Recreation - Fitness Center	0	0	0	0	4,634	4,634
Extracurricular Activities	222,020	0	0	0	239,497	461,517
Capital Outlay	4	0	0	765,746	0	765,750
Debt Service:						
Principal Retirement	340,102	830,000	357,793	0	0	1,527,895
Interest and Fiscal Charges	111,165	2,380,174	70,197	0	0	2,561,536
<i>Total Expenditures</i>	<i>31,222,829</i>	<i>3,246,483</i>	<i>495,802</i>	<i>773,881</i>	<i>6,506,573</i>	<i>42,245,568</i>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>484,831</i>	<i>(107,595)</i>	<i>(77,316)</i>	<i>(187,188)</i>	<i>263,211</i>	<i>375,943</i>
Other Financing Sources (Uses):						
Premium on Debt Issuance	0	48,351	0	0	0	48,351
Proceeds of Bonds	0	2,050,000	0	0	0	2,050,000
Refund of Prior Year Receipts	0	0	0	0	(31,599)	(31,599)
Transfers In	0	0	2,108,667	0	19,996	2,128,663
Transfers Out	(19,296)	(2,108,667)	0	0	(700)	(2,128,663)
<i>Total Other Financing Sources (Uses)</i>	<i>(19,296)</i>	<i>(10,316)</i>	<i>2,108,667</i>	<i>0</i>	<i>(12,303)</i>	<i>2,066,752</i>
<i>Net Change in Fund Balance</i>	<i>465,535</i>	<i>(117,911)</i>	<i>2,031,351</i>	<i>(187,188)</i>	<i>250,908</i>	<i>2,442,695</i>
<i>Fund Balance (Deficit) at Beginning of Year</i> <i>(Restated - See Note 22)</i>	<i>2,040,294</i>	<i>927,412</i>	<i>(1,914,241)</i>	<i>8,278,873</i>	<i>405,458</i>	<i>9,737,796</i>
<i>Fund Balance (Deficit) at End of Year</i>	<i>\$ 2,505,829</i>	<i>\$ 809,501</i>	<i>\$ 117,110</i>	<i>\$ 8,091,685</i>	<i>\$ 656,366</i>	<i>\$ 12,180,491</i>

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

*Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds	\$	2,442,695
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital asset additions in the current period.		
Capital Assets	\$ 634,849	
Depreciation Expense	<u>(1,366,903)</u>	(732,054)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	75,605	
Delinquent Property Taxes	<u>586,349</u>	661,954
 Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal	830,000	
Capital Leases	<u>697,895</u>	1,527,895
 Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Proceeds of Bonds	(2,050,000)	
Accretion	(40,489)	
Accrued Interest	(34,843)	
Compensated Absences	<u>(42,198)</u>	(2,167,530)
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.		
		<u>(273,048)</u>
 Change in Net Assets of Governmental Activities	 \$	 <u><u>1,459,912</u></u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget Basis (Non-GAAP) and Actual
General Fund
For the Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 13,808,893	\$ 13,808,893	\$ 13,539,571	\$ (269,322)
Intergovernmental	13,856,117	13,856,117	16,321,680	2,465,563
Investment Income	439,401	439,401	517,588	78,187
Tuition and Fees	266,977	266,977	314,483	47,506
Miscellaneous	120,330	120,330	141,742	21,412
<i>Total Revenues</i>	<u>28,491,718</u>	<u>28,491,718</u>	<u>30,835,064</u>	<u>2,343,346</u>
Expenditures:				
Current				
Instruction	16,672,892	16,672,892	16,149,528	523,364
Support Services				
Pupils	2,155,620	2,155,620	2,086,613	69,007
Instructional Staff	1,787,609	1,787,609	1,728,322	59,287
Board of Education	122,759	122,759	112,602	10,157
Administration	2,565,021	2,565,021	2,454,391	110,630
Fiscal	948,070	948,070	914,354	33,716
Business	812,244	812,244	693,663	118,581
Operation and Maintenance of Plant	4,389,626	4,389,626	4,075,677	313,949
Pupil Transportation	1,000,777	1,000,777	939,273	61,504
Central	285,794	285,794	276,973	8,821
Extracurricular Activities	252,842	252,842	245,738	7,104
Capital Outlay	306,098	306,098	284,818	21,280
Debt Service				
Principal Retirement	340,102	340,102	340,102	0
Interest and Fiscal Charges	111,165	111,165	111,165	0
<i>Total Expenditures</i>	<u>31,750,619</u>	<u>31,750,619</u>	<u>30,413,219</u>	<u>1,337,400</u>
Excess of Revenues Over (Under) Expenditures	(3,258,901)	(3,258,901)	421,845	3,680,746
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	3,539	3,539	4,169	630
Refund of Prior Year Receipts	(4,270)	(4,270)	(4,150)	120
Advances In	271,189	271,189	319,444	48,255
Advances Out	(131,752)	(131,752)	(128,050)	3,702
Transfers Out	(19,854)	(19,854)	(19,296)	558
<i>Total Other Financing Sources (Uses)</i>	<u>118,852</u>	<u>118,852</u>	<u>172,117</u>	<u>53,265</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(3,140,049)</u>	<u>(3,140,049)</u>	<u>593,962</u>	<u>3,734,011</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	2,703,381	2,703,381	2,703,381	0
Prior Year Encumbrances	448,669	448,669	448,669	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 12,001</u>	<u>\$ 12,001</u>	<u>\$ 3,746,012</u>	<u>\$ 3,734,011</u>

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

Statement of Net Assets
Proprietary Funds
June 30, 2006

	<u>Internal Service Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 758,657
<i>Total Current Assets</i>	758,657
Net Assets	
Unrestricted	758,657
<i>Total Liabilities and Net Assets</i>	<u>\$ 758,657</u>

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

Statement of Revenues, Expenditures and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	<u>Internal Service Fund</u>
Operating Revenues:	
Charges for services	\$ 2,913,795
<i>Total Operating Revenues</i>	<u>2,913,795</u>
Operating Expenses:	
Claims	<u>3,186,843</u>
<i>Total Operating Expenses</i>	<u>3,186,843</u>
<i>Change in Net Assets</i>	(273,048)
<i>Net Assets (Deficit) Beginning of Year</i>	<u>1,031,705</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>\$ 758,657</u></u>

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Internal Service Fund
Cash Flows From Operating Activities:	
Cash From Charges for Services	\$ 2,914,234
Cash Paid for Claims	(3,399,194)
	(484,960)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>(484,960)</i>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<i>(484,960)</i>
<i>Cash and Cash Equivalents at Beginning of Year</i>	<i>1,243,617</i>
<i>Cash and Cash Equivalents at End of Year</i>	<i>\$ 758,657</i>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income (Loss)	\$ (273,048)
Adjustments:	
(Increase) Decrease Assets	
Accounts Receivable	439
Increase (Decrease) in Liabilities	
Claims Payable	(212,351)
	(211,912)
<i>Total Adjustments</i>	<i>(211,912)</i>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>\$ (484,960)</i>

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

Statement of Net Assets
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 42,954
<i>Total Assets</i>	<u>\$ 42,954</u>
Liabilities	
Accounts Payable	\$ 7,715
Undistributed Monies	35,239
<i>Total Liabilities</i>	<u>\$ 42,954</u>

See accompanying notes to the basic financial statements.

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**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 1 - Description of the School District and Reporting Entity

Garfield Heights City School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. This Board controls the School District's seven instructional/support facilities by 211 non-certified employees, 240 certified full time teaching personnel and administrative employees to provide services to 4,155 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

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

The School District is associated with three jointly governed organizations, one insurance purchasing pool and public entity risk pool. These organizations include the Lake-Shore Northeast Ohio Computer Association, Ohio Schools Council Association, Cuyahoga Valley Career Center, Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Suburban Healthcare Consortium. These organizations are presented in Notes 17, 18, and 19 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District 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 property tax revenues for, and the payment of, general obligation bonds used for the upgrade of school facilities.

Permanent Improvement Capital Projects Fund – The permanent improvement capital projects fund accounts for financial resources to be used for the acquisitions, construction, or improvement of major capital facilities other than those financed by proprietary funds.

Building Fund Capital Projects Fund - The building capital projects fund accounts for receipts and expenditures related to all special bond funds in the School District. All proceeds from the sale of bonds, notes or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquired capital facilities including real property.

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

Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The following is the only proprietary fund of the School District:

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds account for student activities.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include 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, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary fund activities.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, investment earnings, grants, tuition 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported as "operating grants and contributions".

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. Cash and Cash Equivalents

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

During fiscal year 2006, investments were made in repurchase agreements, certificates of deposit, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Victory Gradison Government Reserves Money Market account, Commercial Paper, and STAROhio, the State Treasurer's investment pool.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006. Certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$501,499, of which \$296,935 is from other funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material, capital asset improvements, and to create a reserve for budget stabilization. See Note 21 for additional information regarding set asides.

G. Capital Assets

General capital 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 on 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 capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

Description	Governmental Activities Estimated Lives
Land Improvements	15-20 Years
Building and Improvements	10-50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	10 Years
Textbooks	5 Years

H. 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 activities column of the statement of net assets.

I. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences" and GASB Interpretation No. 6. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions 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 fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

K. Net Assets

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

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

L. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, bus purchase allowance, property taxes, debt payments, and budget stabilization.

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

M. Operating Revenues and Expenses

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

N. Interfund Activity

Transfers between governmental activities on the government-wide statements report are eliminated.

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.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

O. Estimates

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

P. Budgetary Data

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

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006.

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (continued)

control. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years.

The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

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

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

Note 3 – Accountability

Fund Deficit

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

	Deficit	
	Fund Balance	Net Assets
Special Revenue Funds:		
Student Activities	\$ 25,280	\$ 25,280
Alternative Education	12,070	12,070
Title I	61,217	0
Improving Teacher Quality	1,042	0

The deficits in these funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

Net Change In Fund Balance General Fund	
	<u>General</u>
Budget Basis	\$ 593,962
Adjustments, increase (decrease)	
Revenue accruals	872,596
Other financing sources	(323,613)
Expenditures accruals	(1,311,622)
Other financing uses	132,200
Encumbrances	502,012
GAAP basis, as reported	<u>\$ 465,535</u>

Note 5 - Deposits and investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 5 - Deposits and investments (continued)

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

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all uninsured public monies deposited with the institution. Interim monies may be 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 other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
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 rating classifications by at least two nationally recognized rating agencies.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 5 - 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 School District, and must be purchased with the expectation that it will be held until 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.

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105% of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent 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 collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$8,113,633, which excludes \$150 cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, \$7,799,060 of the School District's bank balance of \$8,654,060 was exposed to custodial risk as discussed above, while \$855,000 was covered by Federal Deposit Insurance Corporation.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 5 - Deposits and investments (continued)

Investments

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

Rating By Moody	Entity	Fair Value	Investment	Percentage of Total Investment
			Maturity 6 Months or Less	
N/A	Repurchase Agreement	\$ 372,225	\$ 372,225	5.16%
N/A	Money Market Fund	3,414,860	3,414,860	47.38%
AAA	FHLB	717,924	717,924	9.96%
AAA	FHLLN	844,549	844,549	11.72%
AAAm**	STAROhio	1,858,312	1,858,312	25.78%
	Total	<u>\$ 7,207,870</u>	<u>\$ 7,207,870</u>	<u>100.00%</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 School District's investment policy limits investment portfolio maturities to five years or less for investments with a fixed interest rate, and two years or less for investments with a variable interest rate.

Credit Risk. The School District's investment credit ratings are summarized above.

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. See percentage's above.

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value listed as of January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value: public utility real property is assessed at 35% of true value. 2005 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006, and are collected in 2007 with real property taxes.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 6 - Property Taxes (continued)

2006 tangible personal property taxes are levied after April 1, 2006, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory.

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

	2005 Second Half Collections Valuation	2006 First Half Collections Valuation
	<u> </u>	<u> </u>
Real Property		
Residential/Agricultural	\$ 325,396,510	\$ 368,881,265
Commercial/Agricultural	84,402,070	108,250,280
Public Utilities	10,630	10,630
Tangible Personal Property		
General	23,994,562	11,997,281
Public Utilities	18,043,740	18,043,740
Total valuation	<u>\$ 451,847,512</u>	<u>\$ 507,183,196</u>

Real property taxes are payable annually or semiannually. 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.

Tangible personal property taxes paid 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 semiannually, the first payment is due April 30, with the remainder payable by September 20. This year, the June 2006 tangible personal property tax settlement was not received until July of 2006.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 6 - Property Taxes (continued)

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and, public utility taxes which became 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 available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2006, was \$1,969,848, \$1,579,760 was available to the general fund, \$345,926 to the debt service fund, and \$44,162 was available to the permanent improvement capital projects fund.

Note 7 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	
Food Service Operations	\$ 52,134
Alternative Education	5,370
Title I	247,248
Title V	19,076
Drug Free School Grants	12,099
Improving Teacher Quality	113,810
Miscellaneous Federal Grants	162,458
	<u>\$ 612,195</u>

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 8 - Capital Assets

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

	Restated Balance 6/30/05	Additions	Reductions	Balance 6/30/06
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 833,150	\$ 0	\$ 0	\$ 833,150
Construction in progress	93,805	0	0	93,805
Total Capital Assets, not being depreciated:	<u>926,955</u>	<u>0</u>	<u>0</u>	<u>926,955</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,195,728	0	0	1,195,728
Buildings and Improvements	50,391,923	388,208	0	50,780,131
Furniture and Equipment	1,922,817	173,266	0	2,096,083
Vehicles	1,033,979	73,375	0	1,107,354
Textbooks	2,060,731	0	0	2,060,731
Total Capital Assets, being depreciated	<u>56,605,178</u>	<u>634,849</u>	<u>0</u>	<u>57,240,027</u>
Less Accumulated Depreciation:				
Land Improvements	(423,302)	(29,115)	0	(452,417)
Buildings and Improvements	(4,137,158)	(721,041)	0	(4,858,199)
Furniture and Equipment	(922,255)	(250,827)	0	(1,173,082)
Vehicles	(566,332)	(142,431)	0	(708,763)
Textbooks	(1,529,144)	(223,489)	0	(1,752,633)
Total Accumulated Depreciation	<u>(7,578,191)</u>	<u>(1,366,903)</u>	<u>0</u>	<u>(8,945,094)</u>
Total Capital Assets being depreciated, net	<u>49,026,987</u>	<u>(732,054)</u>	<u>0</u>	<u>48,294,933</u>
Governmental Activities Capital Assets, Net	<u>\$ 49,953,942</u>	<u>\$ (732,054)</u>	<u>\$ 0</u>	<u>\$ 49,221,888</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Functions:	
Instruction:	
Regular	\$ 954,537
Special	869
Support Services:	
Instructional	66,702
Administration	25,867
Business	286
Operation and Maintenance of Plant	136,775
Pupil Transportation	96,626
Food Service Operations	44,980
Community Service	40,261
	<u>\$ 1,366,903</u>

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 9 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. For fiscal year 2006, the School District contracted with Nationwide Insurance Company for building and contents, boiler and machinery, and crime. General liability is also protected by Nationwide Insurance Company as well as vehicles. Coverages are as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Ohio School Plan	Building and Contents	\$ 66,923,000
	Crime Insurance	5,000
	Bodily Injury and Property Damage	2,000,000
	Uninsured-Underinsured Motorist	2,000,000
	Comprehensive Automobile Liability	2,000,000
	Collision Automobile Liability	2,000,000
	General Liability (per occurrence)	1,000,000
	General Liability (in aggregate)	3,000,000

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

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Board Association's Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

C. Employee Medical Benefits

In fiscal year 2006, the School District ceased to be self-insured and joined the Suburban Health Consortium, a shared risk pool (Note 19) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which the claim payments are made for all participating districts. The employees share the cost of the monthly premium with the Board.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 9 - Risk Management (continued)

Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance or the Directors have the right to hold monies for an exiting school district subsequent to the settlement of all expenses and claims.

Note 10 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$772,512, \$774,561, and \$827,172, respectively; 50% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004, \$385,692 representing the unpaid contribution for fiscal year 2006, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teacher's Retirement Board. STRS provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling 1-888-227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 10 - Defined Benefit Pension Plans (continued)

members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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, 2006, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,923,804, \$1,833,831, and \$1,863,288, respectively; 83% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. \$328,320 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS. As of June 30, 2006 one member of the Board of Education has elected Social Security. The Board's liability is 6.2% of wages paid.

Note 11 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$137,415 during the 2006 fiscal year.

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 11 - Postemployment Benefits (continued)

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2006, employer contributions to fund health care benefits were 3.42% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2% of each employee's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$249,354.

The surcharge, added to the unallocated portion of the 14% 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% of the protected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS had approximately 59,492 participants currently receiving health care benefits.

Note 12 - Employee Benefits

A. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees. Coverage is \$10,000 for part-time employees and \$20,000 for full time employees. Life insurance is provided through the Ohio Schools Council.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

Vacation Leave

Classified employees accumulate 20 days vacation leave depending upon length of service. Vacation days are credited to classified employees on the anniversary of their employment and must be used within the next 12 months. Accumulated unused vacation time is paid to classified employees upon termination of employment with some restrictions. Teachers do not earn vacation time.

Sick Leave

Each professional staff member is entitled to fifteen (15) days sick leave with pay for each year under contract. The sick leave accrues at the rate of one and one fourth (1 1/4) days for each calendar month under contract. An employee is paid a severance benefit equal to 25% of the value of their unused accumulated sick leave, calculated at current wage rates, upon retirement. The number of unused sick days which can accumulate is unrestricted.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 12 - Employee Benefits (continued)

Personal Leave

All employees are entitled to three days of personal leave, with pay, each school year. The three days of personal leave cannot be carried forward into the next fiscal year.

Note 13- Long-Term and Short-Term Obligations

A. Long-Term Obligations

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

	Restated Outstanding 6/30/05	Additions	Reductions	Outstanding 6/30/06	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds:					
2001 School Improvement Bonds-5.39%, 12/26	\$ 39,237,275	\$ 0	\$ 340,000	\$ 38,897,275	\$ 415,000
Qualified Zone Academy Bonds	3,000,000	0	0	3,000,000	0
Qualified Zone Academy Bonds	2,000,000	0	0	2,000,000	0
2004 School Improvement Bonds-4.37%, 12/26	9,520,000	0	490,000	9,030,000	555,000
Unamortized Premium	186,269	0	9,114	177,155	0
Capital Appreciation Bonds 7.284%	365,000	0	0	365,000	0
Capital Appreciation Bonds 7.125%	130,000	0	0	130,000	0
Accretion on Capital Appreciation bonds	40,137	30,048	0	70,185	0
Accretion on Capital Appreciation bonds	13,973	10,441	0	24,414	0
2006 HB 264 Energy Conservation Bonds	0	2,050,000	0	2,050,000	50,000
Unamortized Premium	0	48,351	4,394	43,957	0
Total General Obligation Bonds	54,492,654	2,138,840	843,508	55,787,986	1,020,000
Compensated Absences	2,847,733	208,539	166,342	2,889,930	201,848
Capital Leases	3,494,458	0	697,895	2,796,563	558,643
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 60,834,845</u>	<u>\$ 2,347,379</u>	<u>\$ 1,707,745</u>	<u>\$ 61,474,479</u>	<u>\$ 1,780,491</u>

During 2006, the School District received HB264 funds for the purpose of making energy efficient improvements to their buildings.

Compensated absences will be paid from the fund from which the employees' salaries are paid. General obligation bonds will be paid from the debt service fund.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

A. Long-Term Obligations (continued)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ending June 30	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Accretion/ Interest
	2007	\$ 1,020,000	\$ 2,319,491	\$ 0	\$ 0	\$ 1,020,000
2008	1,140,000	2,335,398	0	0	1,140,000	2,335,398
2009	1,285,000	2,293,204	0	0	1,285,000	2,293,204
2010	1,410,000	2,239,655	0	0	1,410,000	2,239,655
2011	1,585,000	2,176,373	0	0	1,585,000	2,176,373
2012 - 2016	7,047,275	11,356,866	495,000	455,000	7,542,275	11,811,866
2017 - 2021	18,920,000	7,444,897	0	0	18,920,000	7,444,897
2022 - 2026	19,900,000	3,300,053	0	0	19,900,000	3,300,053
2027	2,670,000	64,641	0	0	2,670,000	64,641
Total	\$ 54,977,275	\$ 33,530,578	\$ 495,000	\$ 455,000	\$ 55,472,275	\$ 33,985,578

B. Short-Term Obligations

In prior fiscal year, the School District issued energy conservation notes. These notes were necessary to finance the updating of school buildings for energy conservation measures.

Note payable activity for the year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deletions	Balance 6/3/2006
Energy Conversation Note	<u>\$ 2,050,000</u>	<u>\$ 0</u>	<u>\$ 2,050,000</u>	<u>\$ 0</u>

Note 14- Capitalized Leases

Capital lease obligations relate to a telephone system, air handling equipment and computer equipment which are leased under long-term agreements. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13 "Accounting for Leases". Capital lease payments in the governmental funds have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Year	Amount
2007	\$ 659,615
2008	663,381
2009	445,857
2010	451,267
2011	451,267
2012 - 2013	451,267
Total Minimum Lease Payments	<u>3,122,654</u>
Less Amount Representing Interest	<u>326,091</u>
Present Value of Minimum Lease Payments	<u>\$ 2,796,563</u>

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 15– Deferred Revenue

Deferred revenue at June 30, 2006 consists of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 17,296,615	\$ 19,629,092
Grants Receivable	0	237,669
	\$ 17,296,615	\$ 19,866,761

Note 16- Interfund Transactions

The account balances by fund of “Interfund Receivable” and “Interfund Payable” as of June 30, 2006 are as follows:

Fund	Receivable	Payable
General Fund	\$ 191,855	\$ 0
Other Governmental Funds	0	191,855
Total	\$ 191,855	\$ 191,855

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2006, all interfund payables outstanding are anticipated to be repaid in fiscal year 2007.

The following is a summarized breakdown of the School District’s operating transfers for fiscal year 2006:

Fund	Transfers In	Transfers Out
General Fund	\$ 0	\$ 19,296
Debt Service	0	2,108,667
Permanent Improvement Capital Projects	2,108,667	0
Nonmajor Governmental Funds	19,996	700
	\$ 2,128,663	\$ 2,128,663

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 17 - Jointly Governed Organizations

A. Lake-Shore Northeast Ohio Computer Association (LNOCA)

The School District is a participant in the Lake-Shore Northeast Ohio Computer Association (LNOCA) which is a computer consortium. LNOCA is an association made up of fourteen participating school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. LNOCA is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of LNOCA including budgeting, appropriating, contracting, and designating management. All the LNOCA revenues are generated from charges for services and state funding. In fiscal year 2006, \$64,693 was paid to LNOCA for services. To obtain information write to LNOCA, 7800 Wall Street, Valley View, Ohio 44125.

B. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the members districts. Each district supports the Council by paying an annual participation fee; in fiscal year 2006 the School District's fee to participate was insignificant. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

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

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

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

C. Cuyahoga Valley Career Center

The Cuyahoga Valley Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the eight participating school districts' elected boards, which possess its own budgeting and taxing authority. To obtain financial information write to the Cuyahoga Valley Career Center, Joy Clickenger, who serves as Treasurer, at 8001 Brecksville Road, Brecksville, Ohio 44141.

Note 18 - Insurance Purchasing Pool

Ohio School Boards Workers' Compensation Group Rating Program

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

Note 19 – Public Entity Risk Pool

The Suburban Health Consortium is a shared health risk pool created pursuant to State statute for the purpose of administering health care benefits. The council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part at any time for their School District. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Note 20 – Contingencies

A. Grants

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

B. Litigation

The Garfield Heights City School District is a party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material affect, if any, on the financial condition of the School District.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

Note 21 - Set-Aside Calculations and Fund Reserves

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

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

	Budget Stablization Reserve	Capital Improvement Reserve	Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2005	\$ 125,721	\$ 0	\$ 0	\$ 125,721
Set-Aside Carryover Balance as of June 30, 2005	0	0	(2,557,843)	(2,557,843)
Current Year Set-Aside Requirement	0	583,187	583,187	1,166,374
Qualifying Disbursements	0	(2,889,975)	(427,543)	(3,317,518)
Total	<u>\$ 125,721</u>	<u>\$ (2,306,788)</u>	<u>\$ (2,402,199)</u>	<u>\$ (4,583,266)</u>
Cash Balance Carried Forward FY 2007	<u>\$ 125,721</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 125,721</u>
Amount to Restrict for Set-Asides				<u>\$ 125,721</u>
Total Restricted Assets				<u>\$ 125,721</u>

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

Note 22 – Restatement of Fund Balance/Net Assets

A. Fund Balance

At June 30, 2005, a QZAB bonds payable in the amount of \$2,000,000 was not recorded causing the financial statements to report an understatement of fund balances. The restatement at June 30, 2005, is to increase the proceeds received and deposited into an escrow account during fiscal year 2005.

	General Fund	Debt Service	Permanent Improvements	Building Fund	Other Governmental	Total
Beginning Fund Balance, 6/30/2005	\$ 2,040,294	\$ 927,412	\$ (1,914,241)	\$ 6,278,873	\$ 405,458	\$ 7,737,796
Proceeds of QZAP Bond	0	0	0	2,000,000	0	2,000,000
Adjusted Fund Balance, 6/30/2005	<u>\$ 2,040,294</u>	<u>\$ 927,412</u>	<u>\$ (1,914,241)</u>	<u>\$ 8,278,873</u>	<u>\$ 405,458</u>	<u>\$ 9,737,796</u>

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2006**

B. Net Assets

The School District had the capital assets reappraised, this resulted in a change to net assets as follows:

	Governmental Activities
Net Assets, at June 30, 2005	\$ 23,552
Adjustment to capital assets	1,773,239
Restated Net Assets, at July 1, 2006	<u>\$ 1,796,791</u>

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$ 51,275	\$0	\$ 51,275
School Breakfast Program	05PU-2006	10.553	128,253	0	128,253	0
National School Lunch Program	LLP4-2006	10.555	496,129	0	496,129	0
Total Nutrition Cluster			<u>624,382</u>	<u>51,275</u>	<u>624,382</u>	<u>51,275</u>
Total U.S. Department of Agriculture			<u>624,382</u>	<u>51,275</u>	<u>624,382</u>	<u>51,275</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Part A	C1S1-2005	84.010	104,352	0	61,816	0
Title I, Part A	C1S1-2006	84.010	384,147	0	448,762	0
Total Title I, Part A			<u>488,499</u>	<u>0</u>	<u>510,578</u>	<u>0</u>
Special Education Cluster:						
IDEA Part B (Title VI-B)	6BSF-2006	84.027	1,083,275	0	1,075,941	0
Total IDEA Part B (Title VI-B)			<u>1,083,275</u>	<u>0</u>	<u>1,075,941</u>	<u>0</u>
Preschool Disability Grant	PGS1-2005	84.173	1,207	0	0	0
Preschool Disability Grant	PGS1-2006	84.173	18,701	0	18,701	0
Total Preschool Disability Grant			<u>19,908</u>	<u>0</u>	<u>18,701</u>	<u>0</u>
Total Special Education Cluster			<u>1,103,183</u>	<u>0</u>	<u>1,094,642</u>	<u>0</u>
Drug Free School Grant	DRS1-2005	84.186	2,153	0	1,666	0
Drug Free School Grant	DRS1-2006	84.186	12,528	0	11,345	0
Drug Free School Grant - Cleveland Diocese	DRS2-2005	84.186	153,320	0	12,563	0
Drug Free School Grant - Cleveland Diocese	DRS2-2006	84.186	317,049	0	296,905	0
Total Drug Free School Grant			<u>485,050</u>	<u>0</u>	<u>322,479</u>	<u>0</u>
Title V - Innovative Programs	C2S1-2005	84.298	7,594	0	0	0
Title V - Innovative Programs	C2S1-2006	84.298	3,604	0	9,126	0
Total Title V - Innovative Programs Grant			<u>11,198</u>	<u>0</u>	<u>9,126</u>	<u>0</u>
Title II, Part D - Education Technology	TJS1-2005	84.318	0	0	0	0
Title II, Part D - Education Technology	TJS1-2006	84.318	7,986	0	8,909	0
Title II, Part D - Education Technology	TJSL-2005	84.318	4,532	0	0	0
Title II, Part D - Education Technology	TJSL-2006	84.318	71,526	0	69,990	0
Total Title II, Part D - Education Technology			<u>84,044</u>	<u>0</u>	<u>78,899</u>	<u>0</u>
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2005	84.367	53,825	0	19,032	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2006	84.367	72,856	0	25,917	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRSA-2005	84.367	62,738	0	98,866	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRSA-2006	84.367	308,576	0	357,641	0
Total Title II, Part A - Teacher and Principal Training & Recruiting			<u>497,995</u>	<u>0</u>	<u>501,456</u>	<u>0</u>
Hurricane Education Recovery Act	N/A	84.938	8,000	0	0	0
Total Passed Through the Ohio Department of Education			<u>2,677,969</u>	<u>0</u>	<u>2,517,180</u>	<u>0</u>
Direct from U.S. Department of Education						
Safe Schools/Healthy Students	N/A	84.184	1,413,046	0	1,354,197	0
Passed Through the Cleveland Municipal School District Instructional Program Office						
Title I Targeted Assistance and School Wide	N/A	84.010	60,223	0	61,443	0
Total U.S. Department of Education			<u>4,151,238</u>	<u>0</u>	<u>3,932,820</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$ 4,775,620</u>	<u>\$ 51,275</u>	<u>\$ 4,557,202</u>	<u>\$ 51,275</u>

The accompanying notes are an integral part of this schedule.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE C – NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAMS

Federal moneys received by the District for these programs are commingled with State grants and local revenues. It is assumed that federal moneys are expended first.

CFDA - Catalog of Federal Domestic Assistance.

N/A – Not applicable



Mary Taylor, CPA

Auditor of State

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

Garfield Heights City School District
Cuyahoga County
5640 Briarcliff Drive
Garfield Heights, Ohio 44125

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 Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 3, 2009, wherein we noted the District restated the June 30, 2005 fund balance for the Building Fund and net assets for Governmental Activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated March 3, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 3, 2009.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

March 3, 2009



Mary Taylor, CPA

Auditor of State

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

Garfield Heights City School District
Cuyahoga County
5640 Briarcliff Drive
Garfield Heights, Ohio 44125

To the Board of Education:

Compliance

We have audited the compliance of the Garfield Heights City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal 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 District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. In a separate letter to the District's management dated March 3, 2009, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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Internal Control Over Compliance (Continued)

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more than inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 March 3, 2009.

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



Mary Taylor, CPA
Auditor of State

March 3, 2009

GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A -133 § .505
 JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program(list):	CFDA# 84.010 - Title I, Part A CFDA# 84.367 - Title II – A CFDA# 84.184 - Safe Schools/Healthy Students
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-001

Proper Encumbering – Noncompliance Citation

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During a test of sixty expenditures we noted ten instances (17%) in which the expenditures were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-001 (Continued)

Proper Encumbering – Noncompliance Citation (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend the Treasurer certify that funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

Procedures have been implemented to ensure that all purchase orders are properly and timely certified.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A -133 § .315 (b)
 FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	Contrary to Ohio Rev. Code § 5705.41(D)(1), expenditures were not certified by the treasurer prior to the obligation being entered into.	No	Not Corrected: Repeated as Finding 2006-001
2005-002	Contrary to Ohio Rev. Code 9.833(C)(1), the District did not utilize an actuary to certify the adequacy of the reserve amounts for their self insurance program.	Yes	
2005-003	Contrary to Section 1113 of Title I, the District's allocation and distribution of funds should be documented..	Yes	

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Mary Taylor, CPA
Auditor of State

GARFIELD HEIGHTS CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2010**