

**GARFIELD HEIGHTS
CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2012**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Education
Garfield Heights City School District
5640 Briarcliff Drive
Garfield Heights, OH 44125

We have reviewed the *Independent Auditor's Report* of the Garfield Heights City School District, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Garfield Heights City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 1, 2013

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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JAMES G. ZUPKA, C.P.A., INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Garfield Heights City School District
Garfield Heights, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

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, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Garfield Heights Local School District, Ohio'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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, Ohio as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District restated its net assets at June 30, 2011 due to an understatement of payment in lieu of taxes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the Garfield Heights City School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should not be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Garfield Heights City School District, Ohio's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



James G. Zupka, CPA, Inc.
Certified Public Accountants

November 27, 2012

Garfield Heights City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited*

The 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, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In fiscal year 2010, the Ohio School Facilities Commission earmarked \$18 million for reimbursement of expenses the School District incurs for major renovations at Elmwood Elementary and Maple Leaf Intermediate School. Elmwood Elementary will be wired for state-of-the-art technology and air conditioning units. Maple Leaf Intermediate will get an addition for a new gymnasium and new classrooms. These upgrades will make the School District a cleaner, safer and more technologically advanced learning place for our students. As of June 30, 2012, these renovations are almost complete and all but \$1.002 million of the \$18 million has been received. The remaining \$1.002 million is expected to be received during fiscal year 2013.
- During fiscal year 2012, the Board of Education continued to offer an early retirement incentive program which was available to certified and classified employees. Retiring employees will receive the incentive over three years. This program helps the School District reduce personnel expenditures without having to lay off younger staff members.
- On March 6, 2012, the School District passed a \$4.1 million five year emergency levy to help stabilize the financial outlook in the near term. This levy is projected to last five years with collections beginning in January 2013.

Using this Financial Report

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Garfield Heights City School District, the general fund, the classroom facilities capital projects fund and the bond retirement debt service fund are the most significant funds.

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about 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 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all non-fiduciary 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 current property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

Reporting the School District's Most Significant Funds

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

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal 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 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.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

Garfield Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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 the fiscal year 2012 compared to fiscal year 2011:

	2012	2011	Change
Assets			
Current and Other Assets	\$34,014,113	\$39,814,283	(\$5,800,170)
Capital Assets, Net	60,578,436	56,766,521	3,811,915
<i>Total Assets</i>	<u>94,592,549</u>	<u>96,580,804</u>	<u>(1,988,255)</u>
Liabilities			
Current Liabilities	19,079,768	18,349,687	730,081
Long-Term Liabilities			
Due Within One Year	1,813,113	2,675,407	(862,294)
Due In More Than One Year	51,724,862	51,777,573	(52,711)
<i>Total Liabilities</i>	<u>72,617,743</u>	<u>72,802,667</u>	<u>(184,924)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	15,417,984	9,273,632	6,144,352
Restricted for:			
Budget Stabilization	0	500,000	(500,000)
Capital Projects	5,853,140	11,976,152	(6,123,012)
Debt Service	1,608,386	2,028,219	(419,833)
Other Purposes	1,100,291	855,725	244,566
Unrestricted (Deficit)	<u>(2,004,995)</u>	<u>(855,591)</u>	<u>(1,149,404)</u>
<i>Total Net Assets</i>	<u>\$21,974,806</u>	<u>\$23,778,137</u>	<u>(\$1,803,331)</u>

By comparing assets and liabilities, one can see the overall position of the School District has declined as evidenced by the decrease in net assets. This is primarily due to a decrease in the money to be received from OSFC for building improvements. Management continues to diligently plan expenses, staying carefully within the School District's revenues in an effort to extend the durations between its levy requests.

In order to further understand what makes up the changes in net assets for the current fiscal year, the following table gives readers further details regarding the results of activities for the current fiscal year. Table 2 shows total revenues, expenses and changes in net assets for fiscal years 2012 and 2011.

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2
 Governmental Activities

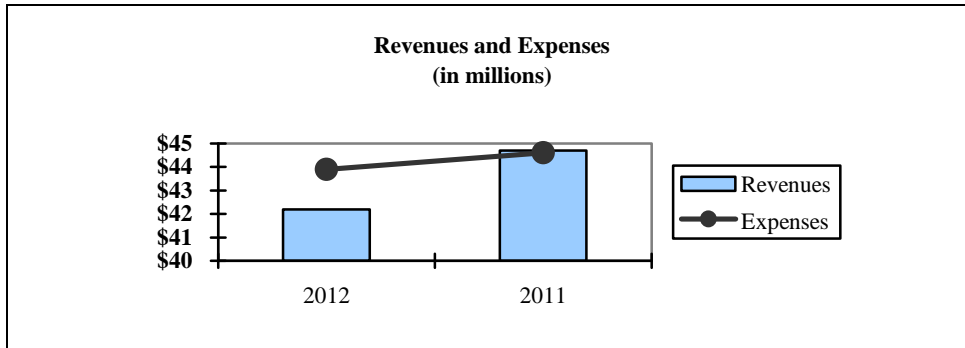
	2012	2011	Change
Program Revenues			
Charges for Services and Sales	\$1,010,756	\$893,514	\$117,242
Operating Grants, Contributions and Interest	6,015,897	6,173,572	(157,675)
Capital Grants and Interest	58,963	47,797	11,166
<i>Total Program Revenues</i>	<u>7,085,616</u>	<u>7,114,883</u>	<u>(29,267)</u>
General Revenues			
Property Taxes	14,661,544	16,664,183	(2,002,639)
Grants and Entitlements	19,142,789	19,820,593	(677,804)
Payment in Lieu of Taxes	241,795	847,609	(605,814)
Investment Earnings	179,739	158,033	21,706
Miscellaneous	842,751	51,968	790,783
<i>Total General Revenues</i>	<u>35,068,618</u>	<u>37,542,386</u>	<u>(2,473,768)</u>
<i>Total Revenues</i>	<u>42,154,234</u>	<u>44,657,269</u>	<u>(2,503,035)</u>
Program Expenses			
Instruction:			
Regular	16,647,135	18,076,904	1,429,769
Special	3,835,072	4,010,764	175,692
Vocational	187,630	260,483	72,853
Student Intervention Services	3,371,030	2,453,747	(917,283)
Support Services			
Pupils	2,480,029	2,219,154	(260,875)
Instructional Staff	1,996,748	2,141,239	144,491
Board of Education	165,334	42,263	(123,071)
Administration	3,866,113	3,236,955	(629,158)
Fiscal	1,122,663	852,651	(270,012)
Business	665,312	718,625	53,313
Operation and Maintenance of Plant	3,247,135	3,730,942	483,807
Pupil Transportation	798,921	1,022,116	223,195
Central	361,900	358,702	(3,198)
Operation of Non-Instructional Services	1,027,174	1,169,121	141,947
Operation of Food Service	1,286,376	1,345,031	58,655
Extracurricular Activities	476,186	470,152	(6,034)
Interest and Fiscal Charges	2,422,807	2,441,592	18,785
<i>Total Program Expenses</i>	<u>43,957,565</u>	<u>44,550,441</u>	<u>592,876</u>
<i>Change in Net Assets</i>	(1,803,331)	106,828	(1,910,159)
Net Assets Beginning of Year -			
- Restated (See Note 3)	<u>23,778,137</u>	<u>23,671,309</u>	<u>106,828</u>
Net Assets End of Year	<u>\$21,974,806</u>	<u>\$23,778,137</u>	<u>(\$1,803,331)</u>

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Graph 1

Revenues and Expenses
(In Millions)

	2012	2011
Revenues	\$42.2	\$44.7
Expenses	43.9	44.6



Governmental Activities

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 voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. 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 were 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 less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property tax revenue decreased due to the slumping economic conditions the State is facing.

Overall, instructional expenses decreased from the previous fiscal year due to the reduction in staffing levels from the additional employees retiring. The decrease in instructional staff spending is due to a change in reporting structure, which now requires some expenditures to be reported as student intervention services. The increase in administrative spending is due to the reclassification of salaries from support services to administration based on a change in job position. The increases in board of education and fiscal expenses are due to an increase in election expenses and delinquency collection fees from the Cuyahoga County Fiscal Officer's office. The increase in pupils expense is due to an increase in health and therapy services needed. The decrease in operation and maintenance of plant is due to fewer payments made on capital projects associated with the renovation of Elmwood and MapleLeaf schools as those projects were close to completion by the end of fiscal year 2012. Pupil transportation decreased from the prior fiscal year due to a reduction in transportation from a 1.5 mile limit to a 2 mile limit that meant less bus routes and fuel was needed.

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District. Revenue from grants decreased in fiscal year 2012, primarily due to a decrease in the amount for the Ohio School Facilities Commission monies for renovations and remodeling of school buildings being received in the fiscal year. Parents continue to have the opportunity to pay for the student's lunch online. Each student uses his/her personal identification number that accesses his/her account when visiting the cafeteria. The School District also allows parents to pay for work book fees and extracurricular activities online.

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.

The majority of the programs listed below rely on general revenues for financing. Clearly, the community that comprises the School District is the greatest source of financial support for the students of the Garfield Heights City School District.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2012		2011	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$16,647,135	\$15,359,940	\$18,076,904	\$15,840,574
Special	3,835,072	2,378,876	4,010,764	2,841,556
Vocational	187,630	184,656	260,483	258,175
Student Intervention Services	3,371,030	3,112,882	2,453,747	2,432,003
Support Services:				
Pupils	2,480,029	2,113,455	2,219,154	1,917,067
Instructional Staff	1,996,748	1,577,211	2,141,239	1,731,778
Board of Education	165,334	162,713	42,263	41,888
Administration	3,866,113	3,631,300	3,236,955	3,119,207
Fiscal	1,122,663	1,101,204	852,651	831,748
Business	665,312	557,440	718,625	607,058
Operation and Maintenance of Plant	3,247,135	3,114,400	3,730,942	3,628,042
Pupil Transportation	798,921	763,261	1,022,116	1,015,181
Central	361,900	356,244	358,702	350,527
Operation of Non-Instructional Services	1,027,174	(233,951)	1,169,121	29,914
Operation of Food Service	1,286,376	(34,350)	1,345,031	38,826
Extracurricular Activities	476,186	303,861	470,152	310,422
Interest and Fiscal Charges	2,422,807	2,422,807	2,441,592	2,441,592
Total	\$43,957,565	\$36,871,949	\$44,550,441	\$37,435,558

The School District's Funds

Information regarding the School District's major funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$46,232,821 and expenditures of \$48,638,321. The general fund had a decrease in fund balance mainly due to increases in regular instruction, pupils and administration services as a result of

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

the salary increases and less employees retiring. The classroom facilities capital projects fund had a decrease in fund balance due to significantly less intergovernmental revenues received from the Ohio School Facilities Commission that were partially offset by capital outlays. The bond retirement debt service fund had an increase in fund balance due to fewer payments for debt. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, intergovernmental monies from State and Federal grants comprise the School District largest revenue source, accounting for 62.04 percent of total governmental revenue.

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 2012, the School District amended its general fund budget several times. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

Due to conservative estimates for property taxes, the original budget basis revenue amount was lower than final budget revenues. The School District's final budget basis expenditures were \$273,225 higher than the actual expenditures. This is due in large part to the School District's continued commitment to provide a quality education while still controlling the costs of that quality education.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2012 balances compared to fiscal year 2011:

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

	2012	2011
Land	\$833,150	\$833,150
Construction in Progress	0	8,204,886
Land Improvements	496,802	537,970
Buildings and Improvements	57,677,146	46,200,112
Furniture and Equipment	1,287,117	612,586
Vehicles	284,221	377,817
<i>Total Capital Assets</i>	\$60,578,436	\$56,766,521

The School District is in the process of making improvements to several school buildings to enhance the safety, security and health of the students. These increases were offset by the annual depreciation. Ohio law requires school districts to set aside three percent of certain revenues for capital improvements. For fiscal year 2012, this amounted to \$666,287 for each set aside. See Note 11 to the basic financial statements for additional information on the School District's capital assets and Note 21 for additional information regarding required set-asides.

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Debt

Table 5 summarizes the bonds outstanding.

Table 5
 Outstanding Long-term Debt at June 30
 Governmental Activities

	2012	2011
2001 School Improvement Bonds	\$3,315,155	\$4,039,913
2004 School Improvement Bonds	7,935,974	8,266,086
2006 Energy Conservation Improvement Bonds	1,395,687	1,528,709
2006 Refunding Bonds	31,628,918	31,539,403
Capital Leases	3,647,820	4,473,354
Total	\$47,923,554	\$49,847,465

The 2001 School Improvement Bonds were issued for the purpose of converting the existing high school to a middle school and various other renovations. These bonds have a final maturity in December 2017. The 2004 School Improvement Bonds were issued for various improvements through the School District and they have a final maturity in December 2026. The 2006 Energy Conservation Improvement Bonds were issued for the installation, modification and remodeling of school buildings to conserve energy and they have a final maturity in December of 2020. The 2006 Refunding Bonds were issued to refund a portion of the 2001 School Improvement Bonds to take advantage of better interest rates. The refunding bonds have a final maturity in December 2026. The School District has entered into capital leases for building improvements, HVAC systems and telephone equipment. See Note 13 to the basic financial statements for additional information on the School District's long-term obligations.

School District Outlook

The School District relies heavily on its local property taxpayers and the State of Ohio for its funding. The School District has been affected by increased property tax delinquencies, changes in the personal property tax structure and commercial business uncertainties. Furthermore, the State of Ohio is facing major deficits which could significantly impact its future funding to school districts. Both of these factors make it increasingly difficult for the School District to meet educational programming needs required for our students in the future. That being said, the Garfield Heights community passed a five-year emergency levy for \$4.1 million that allows the School District to stabilize its financial position for the near future.

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.

Garfield Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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 at Garfield Heights City School District, 5640 Briarcliff Drive, Garfield Heights, Ohio 44125.

Basic Financial Statements

Garfield Heights City School District

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,720,862
Cash and Cash Equivalents with Fiscal Agent	1,073,786
Accounts Receivable	7,296
Accrued Interest Receivable	1,036
Intergovernmental Receivable	1,459,145
Property Taxes Receivable	21,021,495
Payments in Lieu of Taxes Receivable	425,000
Deferred Charges	305,493
Nondepreciable Capital Assets	833,150
Depreciable Capital Assets, Net	<u>59,745,286</u>
<i>Total Assets</i>	<u>94,592,549</u>
Liabilities	
Accounts Payable	241,665
Contracts Payable	196,980
Accrued Wages and Benefits	2,872,829
Retainage Payable	151,133
Intergovernmental Payable	977,205
Matured Compensated Absences Payable	483,697
Deferred Revenue	14,048,348
Accrued Interest Payable	107,911
Long-Term Liabilities:	
Due Within One Year	1,813,113
Due In More Than One Year	<u>51,724,862</u>
<i>Total Liabilities</i>	<u>72,617,743</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,417,984
Restricted for:	
Capital Projects	5,853,140
Debt Service	1,608,386
Food Service	691,129
Scholarships	103,224
Athletics and Music	39,275
Other Purposes	266,663
Unrestricted (Deficit)	<u>(2,004,995)</u>
<i>Total Net Assets</i>	<u><u>\$21,974,806</u></u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$16,647,135	\$224,365	\$1,062,830	\$0	(\$15,359,940)
Special	3,835,072	41,055	1,415,141	0	(2,378,876)
Vocational	187,630	2,974	0	0	(184,656)
Student Intervention Services	3,371,030	49,950	208,198	0	(3,112,882)
Support Services:					
Pupils	2,480,029	30,446	336,128	0	(2,113,455)
Instructional Staff	1,996,748	25,964	393,573	0	(1,577,211)
Board of Education	165,334	2,621	0	0	(162,713)
Administration	3,866,113	58,901	175,912	0	(3,631,300)
Fiscal	1,122,663	17,395	4,064	0	(1,101,204)
Business	665,312	85,078	22,794	0	(557,440)
Operation and Maintenance of Plant	3,247,135	46,248	27,524	58,963	(3,114,400)
Pupil Transportation	798,921	10,708	24,952	0	(763,261)
Central	361,900	5,656	0	0	(356,244)
Operation of Non-Instructional Services	1,027,174	0	1,261,125	0	233,951
Operation of Food Service	1,286,376	247,851	1,072,875	0	34,350
Extracurricular Activities	476,186	161,544	10,781	0	(303,861)
Interest and Fiscal Charges	2,422,807	0	0	0	(2,422,807)
Total Governmental Activities	\$43,957,565	\$1,010,756	\$6,015,897	\$58,963	(36,871,949)
General Revenues					
Property Taxes Levied for:					
					12,058,925
					2,380,847
					32,745
					189,027
					19,142,789
					241,795
					179,739
					842,751
Total General Revenues					35,068,618
					(1,803,331)
					23,778,137
					\$21,974,806

See accompanying notes to the basic financial statements

Garfield Heights City School District

Balance Sheet

Governmental Funds

June 30, 2012

	<u>General</u>	<u>Classroom Facilities</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,286,082	\$3,403,074	\$1,083,777	\$3,947,929	\$9,720,862
Cash and Cash Equivalents With Fiscal Agents	1,073,786	0	0	0	1,073,786
Accounts Receivable	5,251	0	0	2,045	7,296
Accrued Interest Receivable	1,036	0	0	0	1,036
Intergovernmental Receivable	32,746	0	0	1,426,399	1,459,145
Interfund Receivable	1,223,267	0	0	0	1,223,267
Property Taxes Receivable	17,389,538	0	3,326,692	305,265	21,021,495
Payments in Lieu of Taxes Receivable	425,000	0	0	0	425,000
<i>Total Assets</i>	<u>\$21,436,706</u>	<u>\$3,403,074</u>	<u>\$4,410,469</u>	<u>\$5,681,638</u>	<u>\$34,931,887</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$172,684	\$2,440	\$0	\$66,541	\$241,665
Contracts Payable	960	196,020	0	0	196,980
Accrued Wages and Benefits	2,571,987	0	0	300,842	2,872,829
Retainage Payable	151,133	0	0	0	151,133
Interfund Payable	0	0	0	1,223,267	1,223,267
Intergovernmental Payable	842,572	0	0	134,633	977,205
Matured Compensated Absences Payable	468,273	0	0	15,424	483,697
Deferred Revenue	15,819,007	0	2,804,026	1,064,569	19,687,602
<i>Total Liabilities</i>	<u>20,026,616</u>	<u>198,460</u>	<u>2,804,026</u>	<u>2,805,276</u>	<u>25,834,378</u>
Fund Balances					
Restricted	3,318	3,204,614	1,606,443	3,788,553	8,602,928
Assigned	353,395	0	0	0	353,395
Unassigned (Deficit)	1,053,377	0	0	(912,191)	141,186
<i>Total Fund Balances</i>	<u>1,410,090</u>	<u>3,204,614</u>	<u>1,606,443</u>	<u>2,876,362</u>	<u>9,097,509</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$21,436,706</u>	<u>\$3,403,074</u>	<u>\$4,410,469</u>	<u>\$5,681,638</u>	<u>\$34,931,887</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2012*

Total Governmental Fund Balances	\$9,097,509
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*Amounts reported for governmental activities in the statement of
 net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	60,578,436
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Property Taxes	4,405,157
Payments in Lieu of Taxes	425,000
Grants	<u>809,097</u>

Total	5,639,254
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	305,493
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(107,911)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(41,462,266)
Accretion	(2,294,477)
Premium on Bonds	(1,990,147)
Accounting Loss	1,471,156
Compensated Absences	(5,370,088)
Early Retirement Incentive	(244,333)
Capital Leases	<u>(3,647,820)</u>

Total	<u>(53,537,975)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$21,974,806</u></u>
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See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Classroom Facilities	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$11,721,671	\$0	\$3,032,773	\$319,871	\$15,074,315
Payment in Lieu of Taxes	428,606	0	0	0	428,606
Intergovernmental	19,538,814	3,197,484	638,599	5,309,369	28,684,266
Interest	179,739	5,301	0	1,047	186,087
Tuition and Fees	568,875	0	0	50,633	619,508
Extracurricular Activities	0	0	0	69,673	69,673
Contributions and Donations	0	0	0	6,040	6,040
Charges for Services	47,702	0	0	247,851	295,553
Rentals	26,022	0	0	0	26,022
Miscellaneous	39,939	0	0	802,812	842,751
<i>Total Revenues</i>	<u>32,551,368</u>	<u>3,202,785</u>	<u>3,671,372</u>	<u>6,807,296</u>	<u>46,232,821</u>
Expenditures					
Current:					
Instruction:					
Regular	13,506,034	0	0	957,603	14,463,637
Special	2,437,822	0	0	1,275,116	3,712,938
Vocational	228,448	0	0	0	228,448
Student Intervention Services	3,145,756	0	0	204,991	3,350,747
Support Services:					
Pupils	1,966,119	0	0	522,947	2,489,066
Instructional Staff	1,632,908	0	0	369,673	2,002,581
Board of Education	165,334	0	0	0	165,334
Administration	3,569,068	0	0	97,945	3,667,013
Fiscal	1,102,264	0	14,686	10,632	1,127,582
Business	649,060	0	0	28,566	677,626
Operation and Maintenance of Plant	2,949,779	702	0	311,443	3,261,924
Pupil Transportation	666,635	0	0	22,403	689,038
Central	346,582	0	0	5,077	351,659
Operation of Non-Instructional Services	17	0	0	996,313	996,330
Operation of Food Service	0	0	0	1,231,090	1,231,090
Extracurricular Activities	339,067	0	0	128,509	467,576
Capital Outlay	0	5,427,737	0	27,441	5,455,178
Debt Service:					
Principal Retirement	707,598	0	1,505,000	117,936	2,330,534
Interest and Fiscal Charges	26,487	0	1,905,433	38,100	1,970,020
<i>Total Expenditures</i>	<u>33,438,978</u>	<u>5,428,439</u>	<u>3,425,119</u>	<u>6,345,785</u>	<u>48,638,321</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(887,610)</u>	<u>(2,225,654)</u>	<u>246,253</u>	<u>461,511</u>	<u>(2,405,500)</u>
Other Financing Sources (Uses)					
Transfers In	0	587,529	0	87,242	674,771
Transfers Out	(87,242)	0	0	(587,529)	(674,771)
<i>Total Other Financing Sources (Uses)</i>	<u>(87,242)</u>	<u>587,529</u>	<u>0</u>	<u>(500,287)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(974,852)	(1,638,125)	246,253	(38,776)	(2,405,500)
<i>Fund Balances Beginning of Year</i>	<u>2,384,942</u>	<u>4,842,739</u>	<u>1,360,190</u>	<u>2,915,138</u>	<u>11,503,009</u>
<i>Fund Balances End of Year</i>	<u>\$1,410,090</u>	<u>\$3,204,614</u>	<u>\$1,606,443</u>	<u>\$2,876,362</u>	<u>\$9,097,509</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds (\$2,405,500)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Asset Additions	5,363,330	
Current Year Depreciation	<u>(1,551,415)</u>	
 Total		 3,811,915

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

Property Taxes	(412,771)	
Payment in Lieu of Taxes	(186,811)	
Ohio School Facilities Commission	(4,199,362)	
Grants	<u>720,357</u>	
 Total		 (4,078,587)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,330,534

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest	(24,343)	
Amortization of Premium	131,984	
Amortization of Accounting Loss	(98,077)	
Accretion	(440,530)	
Amortization of Issuance Costs	<u>(21,821)</u>	
 Total		 (452,787)

Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(857,906)	
Early Retirement Incentive	<u>(151,000)</u>	
 Total		 <u>(1,008,906)</u>

Change in Net Assets of Governmental Activities (\$1,803,331)

See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$11,477,107	\$12,292,224	\$11,840,661	(\$451,563)
Payment in Lieu of Taxes	372,206	372,206	428,606	56,400
Intergovernmental	18,838,412	18,402,486	19,506,068	1,103,582
Interest	21,184	25,013	21,935	(3,078)
Tuition and Fees	549,403	502,335	568,874	66,539
Rentals	22,348	25,014	23,140	(1,874)
Miscellaneous	42,509	36,381	44,016	7,635
<i>Total Revenues</i>	<u>31,323,169</u>	<u>31,655,659</u>	<u>32,433,300</u>	<u>777,641</u>
Expenditures				
Current:				
Instruction:				
Regular	13,716,694	14,056,694	14,002,125	54,569
Special	2,503,505	2,523,505	2,517,513	5,992
Vocational	212,255	227,255	225,574	1,681
Student Intervention Services	2,871,312	3,171,312	3,158,426	12,886
Support Services:				
Pupils	2,081,857	2,051,857	2,018,229	33,628
Instructional Staff	1,794,560	1,774,560	1,747,739	26,821
Board of Education	177,852	177,852	167,408	10,444
Administration	3,604,386	3,629,386	3,614,253	15,133
Fiscal	1,110,160	1,110,160	1,099,173	10,987
Business	717,851	707,851	699,748	8,103
Operation and Maintenance of Plant	3,147,884	3,177,884	3,157,788	20,096
Pupil Transportation	824,966	769,966	717,476	52,490
Central	373,577	373,577	359,326	14,251
Operation of Non-Instructional Services	14	14	22	(8)
Extracurricular Activities	283,920	283,920	278,683	5,237
Capital Outlay	452,021	452,000	451,271	729
Debt Service:				
Principal Retirement	283,000	283,000	282,814	186
<i>Total Expenditures</i>	<u>34,155,814</u>	<u>34,770,793</u>	<u>34,497,568</u>	<u>273,225</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,832,645)</u>	<u>(3,115,134)</u>	<u>(2,064,268)</u>	<u>1,050,866</u>
Other Financing Sources (Uses)				
Advances In	697,632	701,904	722,357	20,453
Advances Out	0	0	(441,685)	(441,685)
Transfers Out	(36,699)	(78,000)	(87,242)	(9,242)
<i>Total Other Financing Sources (Uses)</i>	<u>660,933</u>	<u>623,904</u>	<u>193,430</u>	<u>(430,474)</u>
<i>Net Change in Fund Balance</i>	(2,171,712)	(2,491,230)	(1,870,838)	620,392
<i>Fund Balance Beginning of Year</i>	2,656,494	2,656,494	2,656,494	0
Prior Year Encumbrances Appropriated	592,538	592,538	592,538	0
<i>Fund Balance End of Year</i>	<u>\$1,077,320</u>	<u>\$757,802</u>	<u>\$1,378,194</u>	<u>\$620,392</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$67,667</u>
Liabilities	
Due to Students	\$27,436
Undistributed Monies	<u>40,231</u>
<i>Total Liabilities</i>	<u>\$67,667</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 1 - Description of the School District and Reporting Entity

Garfield Heights City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and Federal agencies. The Board of Education employs 188 classified employees, 232 certificated full and part-time teaching, tutor and nursing personnel, and 20 administrators who provide services to 4,000 students and other community members.

Reporting Entity

A reporting entity is composed 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, boards and agencies that are not legally separate from the School District. For the School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Non-public Schools - Within the School District 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 schools by the treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity 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.

The School District is associated with three jointly governed organizations and one shared risk pool. These organizations include the North Coast Council, Cuyahoga Valley Career Center, Ohio Schools' Council and Suburban Health Consortium. These organizations are presented in Notes 14 and 15 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 governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. However, the School District has only governmental activities; therefore, no business-type activities are presented.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental 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 fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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. The School District has no proprietary funds.

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

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

Classroom Facilities Fund This capital projects fund accounts for and reports financial resources restricted for the renovation and remodeling of classroom facilities.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Bond Retirement Fund The bond retirement fund is used to account for and report the accumulation of property tax revenues restricted for the payment of general obligation bonds issued for school improvements.

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

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 that account for student activities and rotary activities.

Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., 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.

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 and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified 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 fiscal year-end.

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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 in which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Cash and Cash Equivalents

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

During fiscal year 2012, investments were limited to U.S. Treasury bill, federal home loan bank notes, federal national mortgage association notes, federal home loan mortgage corporation notes, money market and STAR Ohio.

The School District utilizes a fiscal agent to hold retainage on construction contracts. The balance in this account of \$151,133 is presented on the financial statements as "cash and cash equivalents with fiscal agent."

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$179,739, which includes \$138,914 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

Capital Assets

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

All reported capital assets, except land 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	15 - 20 years
Buildings and Improvements	10 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	10 years
Textbooks	5 years

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.

Compensated Absences

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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.

On the financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave will be paid.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, and are reported as obligations of the funds. However, claims and judgments, compensated absences 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.

Internal Activity

Transfers between governmental activities are eliminated on the government wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for non-public schools and network connectivity.

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

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. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

Bond Issuance Costs

Bond issuance costs for underwriting fees and bond insurance for the 2006 refunding school improvement bonds are being amortized using the straight-line method over the life of the certificates on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

Bond Premiums and Discounts

On the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are received in the year the bonds are issued. On the government-wide financial statements, bond discounts are presented as a decrease of the face amount of the general obligation bonds payable. On the fund financial statements, bond discounts are expended in the year the bonds are issued.

Extraordinary and Special Items

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

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.

Budgetary Data

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue closely reflects actual revenue for the fiscal year.

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

Garfield Heights City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 3 – Change in Accounting Principles and Restatement of Prior Year’s Net Assets

Change in Accounting Principles

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 53” Fund Balance Reporting and Governmental Fund Type Definitions.” GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the School District’s financial statements.

Restatement of Prior Year’s Net Assets

During fiscal year 2012, it was determined that payment in lieu of taxes was understated. This restatement increased net assets at June 30, 2011 by \$611,811, from \$23,166,326 to \$23,778,137.

Note 4 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Classroom Facilities	Bond Retirement	Other Governmental Funds	Total
<i>Restricted for:</i>					
Teacher Development	\$3,318	\$0	\$0	\$11,260	\$14,578
Food Service Operations	0	0	0	691,129	691,129
Technology Improvements	0	0	0	79,326	79,326
Classroom Facilities Maintenance	0	0	0	83,121	83,121
Athletics	0	0	0	39,275	39,275
Community Involvement	0	0	0	168,826	168,826
Non-Public Schools	0	0	0	69,832	69,832
Debt Service Payments	0	0	1,606,443	0	1,606,443
Capital Improvements	0	3,204,614	0	2,645,784	5,850,398
<i>Total Restricted</i>	3,318	3,204,614	1,606,443	3,788,553	8,602,928
<i>Assigned to:</i>					
Other Purposes	353,395	0	0	0	353,395
<i>Unassigned (Deficit)</i>	1,053,377	0	0	(912,191)	141,186
<i>Total Fund Balances</i>	\$1,410,090	\$3,204,614	\$1,606,443	\$2,876,362	\$9,097,509

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 5 - Accountability and Compliance

Accountability

Fund balances at June 30, 2012, included the following individual fund deficits:

Special Revenue Funds

Public Preschool	\$39,715
School Net Professional Development	1,041
Alternative Schools	9,153
Education Jobs	79,368
Title VI-B	79,106
Technology II-D Grant	3,535
Title I School Improvement	132,117
Title I	521,703
Preschool Grant	10,596
Class Size Reduction	35,857

The special revenue funds deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

Compliance

Contrary to Section 5705.41(B), Ohio Revised Code, the following funds and departments within the general fund had expenditures plus encumbrances in excess of appropriations:

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
Operation of Non-Instructional Services	\$14	\$22	(\$8)
Transfers Out	78,000	87,242	(9,242)
Other Nonmajor Governmental Funds:			
Technology II-D Grant	81,373	81,517	(144)
Title I School Improvement	204,108	212,161	(8,053)
Title I	1,584,049	1,603,239	(19,190)
Permanent Improvements	958,092	1,504,321	(546,229)

Although these budgetary violations were not corrected by fiscal year end, the management will ensure that appropriations will be closely monitored to prevent future violations.

Note 6 - Budgetary Basis of Accounting

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
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1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
4. Investments are reported at cost (budget) rather than fair value (GAAP).
5. Advances-In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Budgetary revenues and expenditures of the public school support, uniform school supplies, and career development- tech prep are reclassified to the general fund for GAAP Reporting.

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

Net Change in Fund Balance General Fund	
	General
GAAP Basis	(\$974,852)
Net Adjustment for Revenue Accruals	(70,314)
Advances In	722,357
Beginning Fair Value Adjustment for Investments	192
Ending Fair Value Adjustment for Investments	(2,400)
Net Adjustment for Expenditure Accruals	(705,784)
Advances Out	(441,685)
Excess of revenues and other financing sources and under expenditures and other financing uses:	
Public School Support	23,887
Encumbrances	(422,239)
Budget Basis	(\$1,870,838)

Note 7 - Deposits and Investments

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

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

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

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For the Fiscal Year Ended June 30, 2012*

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

The School District utilizes a fiscal agent to hold retainage on construction contracts. The balance in this account of \$151,133 is presented on the financial statements as "cash and cash equivalents with fiscal agent."

Investments

Investments are reported at fair value. As of June 30, 2012, the School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Standard and Poors Rating</u>	<u>Percentage of Total Investments</u>
Federal Home Loan Bank Notes	\$535,650	Less than two years	AAAm	5.69 %
Federal National Mortgage Association Notes	456,138	Less than one year	AAAm	14.66
Federal Home Loan Mortgage Corporation Notes	334,606	Less than two years	AAAm	3.56
Money Market	6,996,654	Daily	AAAm	75.99
STAR Ohio	9,690	52.5 Days	N/A	0.10
Total Investments	<u>\$8,332,738</u>			

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Interest Rate Risk. As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. State statute limits investments in repurchase agreements to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk. The Federal Home Loan Bank Notes, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, Money Market and STAR Ohio all carry a credit rating of AAAM by Standard and Poors. Ohio law requires that Star Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer.

Note 8 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer 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, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

The amount available as an advance at June 30, 2012 was \$1,995,531 in the general fund, \$522,666 in the bond retirement fund and \$49,793 in the permanent improvements capital projects fund. The amount available as an advance at June 30, 2011 was \$2,114,521 in the general fund, \$510,112 in the bond retirement fund and \$52,393 in the permanent improvements capital projects fund.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$428,284,750	97.10%	\$417,190,590	97.91%
Public Utility Personal	8,588,720	1.95	8,896,900	2.09
General Business Personal	4,213,750	0.95	0	0.00
Total	\$441,087,220	100.00%	\$426,087,490	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$56.50		\$56.50	

Note 9 - Receivables

Receivables at June 30, 2012, consisted of taxes, payments in lieu of taxes, accounts (contributions and other), tuition and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for delinquent property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Title I Grant	\$589,013
Special Education Part B-IDEA Grant	314,538
Education Jobs	220,498
Improving Teacher Quality Title II-A Grant	196,794
School Improvement Subsidy	96,948
Other Grants	37,531
Technology II-D Grant	3,823
Total	\$1,459,145

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Note 10 - Interfund Transactions

Interfund Balances

Interfund balances at June 30, 2012 consisted of the following:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General Fund</u>
General Fund	\$0
Other Governmental Funds:	
Public Preschool	17,260
SchoolNet, Professional Development	1,050
Alternative Schools	200
Education Jobs	96,300
Title VI-B	176,606
Technology II-D Grant	4,250
Title I School Improvement	121,125
Title I	637,376
Drug Free Schools	10,600
Classroom Size Reduction	158,500
<i>Total</i>	<u><u>\$1,223,267</u></u>

These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. These loans are expected to be repaid in one year.

Interfund Transfers

Interfund transfers at June 30, 2012 consisted as follows:

<u>Transfers To</u>	<u>Transfers From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Permanent Improvement</u>	
Major Fund:			
Classroom Facilities	\$0	\$587,529	\$587,529
Other Governmental Funds:			
Public Preschool	13,530	0	13,530
Alternative Schools	27,927	0	27,927
Title I School Improvement	13,145	0	13,145
Preschool Grant	32,640	0	32,640
Total	<u><u>\$87,242</u></u>	<u><u>\$587,529</u></u>	<u><u>\$674,771</u></u>

The transfers from the general fund to nonmajor special revenue funds were made to move unrestricted balances to support programs and projects accounted for in other funds. The transfer from the permanent improvement capital projects fund to the classroom facilities capital projects fund was to support the Elmwood and MapleLeaf schools renovation projects.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 11 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets, not being depreciated				
Land	\$833,150	\$0	\$0	\$833,150
Construction in Progress	8,204,886	5,343,471	(13,548,357)	0
<i>Total Capital Assets, not being depreciated</i>	<u>9,038,036</u>	<u>5,343,471</u>	<u>(13,548,357)</u>	<u>833,150</u>
Capital Assets, being depreciated				
Land Improvements	1,195,728	0	0	1,195,728
Buildings and Improvements	57,355,824	12,794,624	0	70,150,448
Furniture and Fixtures	2,525,013	773,592	0	3,298,605
Vehicles	1,728,524	0	0	1,728,524
<i>Total Capital Assets, being depreciated</i>	<u>62,805,089</u>	<u>13,568,216</u>	<u>0</u>	<u>76,373,305</u>
Less: Accumulated Depreciation				
Land Improvements	(657,758)	(41,168)	0	(698,926)
Buildings and Improvements	(11,155,712)	(1,317,590)	0	(12,473,302)
Furniture and Fixtures	(1,912,427)	(99,061)	0	(2,011,488)
Vehicles	(1,350,707)	(93,596)	0	(1,444,303)
<i>Total Accumulated Depreciation</i>	<u>(15,076,604)</u>	<u>(1,551,415)</u>	<u>0</u>	<u>(16,628,019)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>47,728,485</u>	<u>12,016,801</u>	<u>0</u>	<u>59,745,286</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$56,766,521</u>	<u>\$17,360,272</u>	<u>(\$13,548,357)</u>	<u>\$60,578,436</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$1,403,942
Special	1,089
Support Services	
Instructional Staff	6,203
Business	2,320
Operation and Maintenance of Plant	6,356
Pupil Transportation	95,349
Operation of Food Service	28,027
Extracurricular Activities	8,129
Total Depreciation Expense	<u>\$1,551,415</u>

Note 12 – Capital Leases

Equipment Lease

In prior years, the School District entered into leases for HVAC systems and telephone equipment. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases," and have been recorded on the government-wide statements. The original amounts capitalized for the capital leases and the book value as of June 30, 2012 follows:

Garfield Heights City School District

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For the Fiscal Year Ended June 30, 2012*

	<u>Amounts</u>
Asset:	
Equipment	\$4,969,694
Less: Accumulated depreciation	<u>(4,247,889)</u>
Current Book Value	<u><u>\$721,805</u></u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2012.

	<u>Amounts</u>
2013	\$156,036
2014	147,724
2015	139,411
2016	139,411
2017	139,411
2018-2019	<u>209,111</u>
Total Minimum Lease Payments	931,104
Less: Amount representing interest	<u>(122,588)</u>
Present Value of Minimum Lease Payments	<u><u>\$808,516</u></u>

Capital lease payments have been reclassified and reflected as debt service in the fund financial statements for the general fund and the vocational education special revenue fund. These expenditures are reflected as program expenditures on a budgetary basis.

Building Leases

2003 Building Lease This capital lease obligation recorded on the government wide statements relates to the improvement of several buildings in the School District. As part of these agreements, the lessor, deposited \$3,000,000 into the School District's account in 2003. The School District will be making annual sinking fund payments over a fifteen year period to its escrow agent, which will invest the sinking fund dollars at an interest rate that will generate at least \$909,800 over the lease period, the difference between the sinking payments and the lease principal payment. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in March 2018.

The following is a schedule of the sinking fund payments required under the lease and escrow agreements:

Year Ending June 30	<u>2003 Building Lease</u>		
	<u>Principal</u>	<u>Sinking fund Payments</u>	<u>Total Lease Payment</u>
2013	\$0	\$149,300	\$149,300
2014	0	149,300	149,300
2015	0	149,300	149,300
2016	0	149,300	149,300
2017	0	149,300	149,300
2018	<u>3,000,000</u>	<u>0</u>	<u>3,000,000</u>
Total	<u><u>\$3,000,000</u></u>	<u><u>\$746,500</u></u>	<u><u>\$3,746,500</u></u>

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

	<u>Amounts</u>
2013	\$149,300
2014	149,300
2015	149,300
2016	149,300
2017	149,300
2018	<u>3,000,000</u>
Total Mimimum Lease Payments	<u>3,746,500</u>
Less: Amount representing interest	<u>(746,500)</u>
Present Value of Mimimum Lease Payments	<u><u>\$3,000,000</u></u>

2004 Building Lease This capital lease obligation recorded on the government wide statements relates to the improvement of several buildings in the School District. As part of these agreements, the lessor, deposited \$2,000,000 into the School District's account in 2004. The School District will be making annual interest and sinking fund payments over a fourteen year period to its escrow agent, which will pay the annual interest and invest the sinking fund dollars at an interest rate that will generate at least \$482,720 over the lease period, the difference between the sinking payments and the lease principal payment. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in September 2018.

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

	<u>Amounts</u>
2013	\$133,514
2014	133,514
2015	133,514
2016	133,514
2017	133,514
2018	<u>2,016,800</u>
Total Mimimum Lease Payments	<u>2,684,370</u>
Less: Amount representing interest	<u>(684,370)</u>
Present Value of Mimimum Lease Payments	<u><u>\$2,000,000</u></u>

The following is a schedule of the interest and sinking fund payments required under the lease and escrow agreements:

Fiscal Year Ending June 30	2004 Building Lease			
	Serial Bonds		Sinking Fund	Total Lease
	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>	<u>Payment</u>
2013	\$0	\$16,800	\$116,714	\$133,514
2014	0	16,800	116,714	133,514
2015	0	16,800	116,714	133,514
2016	0	16,800	116,714	133,514
2017	0	16,800	116,714	133,514
2018	2,000,000	16,800	116,714	2,133,514
Total	<u>\$2,000,000</u>	<u>\$100,800</u>	<u>\$700,284</u>	<u>\$2,801,084</u>

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

As of June 30, 2012, the School District's escrow account balance held at US Bank with JP Morgan Chase as the escrow agent for the 2003 and 2004 building leases is \$922,650.

Note 13 – Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2012 were as follows:

Governmental Activities	Outstanding June 30, 2011	Additions	Deductions	Outstanding June 30, 2012	Due in One Year
General Obligation Bonds					
2001 School Improvement Bonds					
Serial Bonds	\$850,000	\$0	(\$850,000)	\$0	\$0
Term Bonds	2,165,000	0	0	2,165,000	0
Capital Appreciation Bonds	342,275	0	0	342,275	0
Accretion	682,638	125,242	0	807,880	0
Total 2001 School Improvement Bonds	4,039,913	125,242	(850,000)	3,315,155	0
2004 School Improvement Bonds					
Serial Bonds	2,880,000	0	(385,000)	2,495,000	0
Term Bonds	4,400,000	0	0	4,400,000	0
Unamortized Premium	144,606	0	(7,161)	137,445	0
Capital Appreciation Bonds	495,000	0	0	495,000	365,000
Accretion	346,480	62,049	0	408,529	0
Total 2004 School Improvement Bonds	8,266,086	62,049	(392,161)	7,935,974	365,000
2006 Energy Conservation Improvement Bonds					
Serial Bonds	1,500,000	0	(130,000)	1,370,000	135,000
Unamortized Premium	28,709	0	(3,022)	25,687	0
Total 2006 School Improvement Bonds	1,528,709	0	(133,022)	1,395,687	135,000
2006 Refunding Bonds					
Serial Bonds	22,800,000	0	(140,000)	22,660,000	0
Capital Appreciation Bonds	1,179,991	0	0	1,179,991	535,780
Accretion	824,829	253,239	0	1,078,068	0
Term Bonds	6,355,000	0	0	6,355,000	0
Unamortized Premium	1,948,816	0	(121,801)	1,827,015	0
Unamortized Refunding Loss	(1,569,233)	0	98,077	(1,471,156)	0
Total 2006 Refunding Bonds	31,539,403	253,239	(163,724)	31,628,918	535,780
Total General Obligation Bonds	45,374,111	440,530	(1,538,907)	44,275,734	1,035,780
Compensated Absences					
	4,512,182	1,170,202	(312,296)	5,370,088	289,497
Early Retirement Incentive					
	93,333	186,000	(35,000)	244,333	98,833
Capital Leases					
	4,473,354	0	(825,534)	3,647,820	389,003
Total Other Long-term Obligations	9,078,869	1,356,202	(1,172,830)	9,262,241	777,333
Total Governmental Activities Long-Term Liabilities	\$54,452,980	\$1,796,732	(\$2,711,737)	\$53,537,975	\$1,813,113

General obligation bonds will be paid from the general obligation bond retirement fund. Compensated absences will be paid from the general fund and the food service, auxiliary services, public school preschool, preschool, alternative school, title VI-B, education jobs, title I and classroom reduction special revenue funds. The early retirement incentive will be paid from the general fund. Capital leases will be paid from the general fund and the permanent improvement capital projects fund.

Garfield Heights City School District

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For the Fiscal Year Ended June 30, 2012*

2001 School Improvement Bonds

On November 19, 2001, the School District issued \$41,497,275 school improvement bonds for the purpose of converting the existing high school to a middle school and various other renovations throughout the School District. These bonds were partially refunded on October 4, 2006. Interest payments at rates ranging from 3 percent to 5.5 percent are due on June 1 and December 1 of each year, until the principal amount is paid. After the refunding, the bond issue consists of \$4,635,000 of serial bonds, \$2,165,000 of term bonds, and \$342,275 of capital appreciation bonds.

The term bonds were issued for a ten year period with a final maturity of December 15, 2017. The serial bonds were issued for a six year period with a final maturity of December 15, 2011.

The capital appreciation bonds remained outstanding at June 30, 2012. The capital appreciation bonds were originally sold at a discount of \$1,382,725, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2016.

The maturity amount of outstanding capital appreciation bonds at June 30, 2012 is \$342,275. The accretion recorded for 2012 was \$125,242, for a total outstanding bond liability of \$1,150,155 at June 30, 2012.

2004 School Improvement Bonds

On January 15, 2004, the School District issued \$10,500,000 school improvement bonds for the purpose of improving various buildings throughout the School District. The bonds were issued at a premium of \$192,290. Interest payments at rates ranging from 2 percent to 7.284 percent are due on June 15 and December 15 of each year, until the principal amount is paid. The bond issue consists of \$5,605,000 of serial bonds, \$495,000 of capital appreciation bonds and \$4,400,000 of term bonds.

The capital appreciation bonds remained outstanding at June 30, 2012. The capital appreciation bonds were originally sold at a discount of \$455,000, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2013 through 2014.

The serial bonds were issued for a fifteen year period with a final maturity of June 19, 2019.

The maturity amount of outstanding capital appreciation bonds at June 30, 2012 is \$495,000. The accretion recorded for 2012 was \$62,049, for a total outstanding bond liability of \$903,529 at June 30, 2012.

The term bonds maturing on December 15, 2020, 2022, 2026 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 15 in the years and in the respective principal amounts as follows:

Year	Issue		
	\$1,530,000	\$1,655,000	\$1,215,000
2020	\$750,000	\$0	\$0
2022	0	810,000	0
2026	0	0	540,000
Total	\$750,000	\$810,000	\$540,000
Stated Maturity	12/15/2020	12/15/2022	12/15/2026

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The remaining principal amount of the term bonds (\$780,000, \$845,000 and \$675,000) will mature at the stated maturity.

2006 Energy Conservation Improvement Bonds

On July 14, 2005, the School District issued \$2,050,000 energy conservation improvement bonds for the purpose of installing, modifying and remodeling school buildings to conserve energy. The bonds were issued at a premium of \$83,354. The bonds mature on June 1 and December 1 of each of the years 2005 through 2020. Interest payments of 4.8 percent per year are due on June 1 and December 1 of each year, until the principal amount is paid.

2006 Refunding Bonds

On October 4, 2006, the School District issued \$31,339,991 refunded general obligation bonds for the purpose of refunding \$31,340,000 of the School District's outstanding 2001 school improvement bonds. The refunding bonds mature on December 15 of each of the years 2006 through 2026. Interest payments, at rates ranging from 4 percent to 12.26 percent per year are payable on June 15 and December 15 of each year, until the principal amount is paid.

The bonds were sold at a premium of \$2,245,438. Net proceeds of \$31,148,071 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, \$31,340,000 of these bonds is considered defeased and the liability for the refunded bonds have been removed from the School District's financial statements.

The School District decreased its total debt service payments by \$525,253 as a result of the advance refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$926,115.

The bond issue consists of \$23,805,000 of serial bonds, \$1,179,991 of capital appreciation bonds and \$6,355,000 of term bonds.

The serial bonds were issued for a six year period with a final maturity date of December 15, 2024.

The capital appreciation bonds remained outstanding at June 30, 2012. The capital appreciation bonds were originally sold at a discount of \$1,445,009, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2013 through 2014.

The maturity amount of outstanding capital appreciation bonds at June 30, 2012 is \$1,179,991. The accretion recorded for 2012 was \$253,239, for a total outstanding bond liability of \$2,258,059 at June 30, 2012.

The term bonds maturing on December 15, 2026, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

	Issue
Year	\$6,355,000
2025	\$4,410,000
Stated Maturity	12/15/2026

The remaining principal amount of the term bonds (\$1,945,000) will mature at the stated maturity.

The overall debt margin of the School District as of June 30, 2012 was (\$137,949) with an unvoted debt margin of \$426,087.

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012 are as follows:

Fiscal Year Ending June 30	School Improvement Bonds					
	Serial Bonds		Capital Appreciation Bonds		Term Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$135,000	\$1,497,766	\$900,780	\$904,220	\$0	\$0
2014	140,000	1,491,166	774,211	995,789	0	0
2015	2,180,000	1,473,576	0	0	0	0
2016	605,000	1,445,251	342,275	1,382,725	0	0
2017	330,000	1,308,248	0	0	2,165,000	58,184
2018 - 2022	12,170,000	5,568,526	0	0	2,340,000	617,994
2023 - 2027	10,965,000	3,137,838	0	0	8,415,000	399,189
Total	<u>\$26,525,000</u>	<u>\$15,922,371</u>	<u>\$2,017,266</u>	<u>\$3,282,734</u>	<u>\$12,920,000</u>	<u>\$1,075,367</u>

Fiscal Year Ending June 30	School Improvement Bonds	
	Total	
	Principal	Interest
2013	\$1,035,780	\$2,401,986
2014	914,211	2,486,955
2015	2,180,000	1,473,576
2016	947,275	2,827,976
2017	2,495,000	1,366,432
2018 - 2022	14,510,000	6,186,520
2023 - 2027	19,380,000	3,537,027
Total	<u>\$41,462,266</u>	<u>\$20,280,472</u>

Note 14 - Jointly Governed Organizations

North Coast Council

The North Coast Council (NCC) is a jointly governed computer service bureau owned and operated by thirteen public school districts. The primary function of NCC is to provide to its members the support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Major areas of service provided by NCC include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. NCC is wholly owned by its member districts and is governed by a Board of Directors (member Superintendents). NCC's current membership includes the Educational Service Center of Cuyahoga County and thirteen school districts in Cuyahoga County. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of NCC. Each school district supports NCC based upon a per pupil charge dependent upon the software packages used. In fiscal year 2012, the School District paid \$111,464 to NCC. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, Ohio 44125.

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Cuyahoga Valley Career Center

The Cuyahoga Valley Career Center (a joint vocational school district) is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possess its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The School District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2012. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

Ohio Schools' Council

The Ohio Schools Council (Council) is a jointly governed organization among 161 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2012, the School District paid \$118,245 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy has been selected as supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 147 participants in the program including the Garfield Heights School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

Note 15 – Public Entity Risk Pool

Suburban Health Consortium

The Suburban Health Consortium ("the Consortium") is a shared health risk pool created on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverages for their employees and the eligible dependents and designated beneficiaries of such employees. The Consortium was formed and operates as a legally separate entity under Ohio Revised Code Section 9.833. The Board of Directors is the governing body of the Consortium. The Board of Education of each Consortium Member appoints its Superintendent or such Superintendent's designee to be its representative on the Board of Directors. The officers of the Board of Directors consist of a Chairman, Vice-Chairman and Recording Secretary, who are elected at the annual meeting of the Board of Directors and serve until the next annual meeting. All of the authority of the Consortium is exercised by or under the direction of the Board of Directors. The Board of Directors also sets all premiums and other amounts to be paid by the Consortium Members, and the Board of Directors have the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

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The Fiscal Agent shall be the Board of Education responsible for administering the financial transactions of the Consortium (Orange City School District). The Fiscal Agent shall carry out the responsibilities of the Consortium Fund, enter into contracts on behalf of the Consortium as authorized by the Directors and carry out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions shall be included in the payments from such District Member to the Fiscal Agent for such benefit program. Contributions are to be submitted by each District Member, to the Fiscal Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due. It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement.

Any Consortium Member wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal. Upon withdrawal of a Consortium Member, the Consortium shall pay the run out of all claims for such Consortium Member provided such Consortium Member has paid to the Consortium, prior to the effective date of withdrawal a withdrawal fee in the amount equal to two months' premiums at the Consortium Member's current rate. Payment of the withdrawal fee does not extend insurance coverage for two months. Upon automatic withdrawal, for non-payment of premiums required by the Consortium Agreement, the Consortium shall pay the run out of all claims for such Consortium Member provided that the Consortium has received from such Consortium Member all outstanding and unpaid premiums and other amounts and the withdrawal fee equal to two months' premiums at the Consortium Member's current rates. Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement shall have no claim to the Consortium's assets. Financial information for the Consortium can be obtained from the Treasurer of the North Royalton City School District (the Fiscal Agent) at 6579 Royalton Road, North Royalton, Ohio 44133.

Note 16 – Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$629,594, \$745,953 and \$980,168, respectively. For fiscal year 2012, 40.49 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

State Teachers Retirement System

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$2,158,654 and \$33,268 for the fiscal year ended June 30, 2012, \$2,154,403 and \$28,825 for the fiscal year ended June 30, 2011 and \$2,256,236 and \$24,513 for the fiscal year ended June 30, 2010. For fiscal year 2011, 87.84 percent has been contributed for the DB plan and 87.84 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

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Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$22,729 made by the School District and \$16,235 made by the plan members. In addition, member contributions of \$23,763 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2012, all the members of the Board of Education have elected Social Security. The Board's liability is 14 percent of wages paid.

Note 17 – Postemployment Benefits

School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$74,362 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$27,266, \$90,323, and \$35,280, respectively. For fiscal year 2012, 40.49 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010, were \$37,181, \$48,004 and \$58,289, respectively. For fiscal year 2012, 40.49 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Garfield Heights City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$157,804, \$161,445 and \$167,504 respectively. For fiscal year 2012, 87.84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Note 18 - Risk Management

Workers' Compensation

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the School District contracted with Ohio Casualty Insurance Company for building and contents, boiler and machinery, crime insurance, general liability and vehicle insurance. The coverage amounts are:

Type of Coverage	Deductible	Coverage
Building and Contents	\$2,500	\$101,522,512
Inland Marine	250/500	2,468,850
Flood	50,000	1,000,000
Crime Insurance	500	250,000
General Liability (per occurrence)	0	1,000,000
General Liability (in aggregate)	0	2,000,000
Employee Benefits Liability (per occurrence)	1,000	1,000,000
Employee Benefits Liability (in aggregate)	0	3,000,000
Comprehensive Automobile Liability	250	1,000,000
Fleet Combined Single Limit	0	1,000,000
Umbrella	0	3,000,000
Boiler and Machinery	1,000	50,000,000
Errors and Omissions	2,500	1,000,000
Sexual Misconduct	0	1,000,000
Data Compromise	2,500	50,000
Uninsured/Underinsured Motorists	0	1,000,000

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 19 - Other Employee Benefits

Compensated Absences

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

Vacation Leave Classified employees accumulate vacation leave depending upon length of service. Vacation days are credited to classified employees on the anniversary of their employment. 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 in accordance with negotiated agreement not to exceed 77 days, calculated at current wage per diem rates, upon retirement.

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. Unused personal leave rolls over to sick leave in the next fiscal year.

Life Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Schools' Council. Coverage is \$10,000 for part-time employees, \$20,000 for full time classified employees, and \$50,000 for certified and exempt employees.

Health Insurance Benefits

The School District provides employee medical and prescription drug, dental and vision insurance through Medical Mutual of Ohio. Employees contribute seven percent of the premium. The insurance plans include no deductibles for family or single coverage.

Retirement Incentive

Certified Employees Any bargaining unit member who first becomes eligible for retirement during a school year, as defined below, accrues the right to an additional 100 days of severance pay at a per diem rate of \$350 if they actually retire between the end of the school year and July 10 of the school year in which the employee first becomes eligible. Any eligible employee who wishes to participate in this incentive must elect to participate by providing written notice to the Superintendent's office prior to March 1st of the school year in which they retire. A bargaining unit member shall be eligible for this incentive to retire when they first meet any one of the following three criteria as defined by State Teachers Retirement System's criteria for retirement eligibility:

1. Any age with 30 or more years of service credit; or
2. Age 55 or older with 25 or more years of service credit; or
3. Age 60 or older with five or more years of service credit.

Half payment will be made in one lump sum within sixty days after proof of retirement, and half deferred to July 1st after the calendar year in which they retire.

Classified Employees A bargaining unit member shall be eligible for the Early Retirement Incentive Program on the date they become eligible under one of the School Employees Retirement System's criteria.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

This criteria is defined as:

1. At least five years of service for a pension at 60 or later;
2. At least 25 years of service to retire between 55 and 60; or
3. At least 30 years of service to retire at any age.

The first time a bargaining unit member becomes eligible to retire, they shall receive 100 percent of the retirement incentive amount if they elect to retire at that time as shown on the schedule. The second time a bargaining unit member becomes eligible to retire; they shall receive fifty percent of the retirement incentive amount if they elect to retire at that time. If a bargaining unit member passes on the first two eligibility criterion, they will no longer be eligible for the incentive. The retirement incentive amounts are determined using the retired employee's current base salary for classification and years of service. Any eligible employee who wishes to participate in this incentive program must elect in writing stating they want to participate prior to the school year end in which they retire. This incentive will be payable in two payments on or near July 1st following their retirement date.

Note 20 – Contingencies

Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received 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. This also encompasses the Auditor of State's ongoing review of student attendance data. 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, 2012.

Litigation

The 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 effect, if any, on the financial condition of the School District.

Note 21 - Set Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year 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 change in the fiscal year end set aside amount for capital acquisition. Disclosure of this information is required by State statute.

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

	<u>Capital Improvements</u>
Set-Aside Reserve Balance as of June 30, 2011	\$0
Current Year Set-aside Requirement	666,287
Offsets	(133,444)
Qualifying Disbursements	<u>(6,166,662)</u>
Total	<u><u>(\$5,633,819)</u></u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u><u>\$0</u></u>
Set-aside Reserve Balance as of June 30, 2012	<u><u>\$0</u></u>

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

Note 22 – Significant Commitments

Contractual Commitments

At June 30, 2012, the School District’s significant contractual commitments consisted of:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid to date</u>	<u>Remaining Contract</u>
Maple Leaf Renovation/Addition	\$7,143,554	\$6,901,810	\$241,744
Elmwood Renovation	5,802,935	5,677,034	125,901
Design Services	<u>1,073,328</u>	<u>1,063,391</u>	<u>9,937</u>
	<u><u>\$14,019,817</u></u>	<u><u>\$13,642,235</u></u>	<u><u>\$377,582</u></u>

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General fund	\$422,239
Classroom Facilities fund	1,496,118
Nonmajor funds	<u>655,053</u>
Total	<u><u>\$2,573,410</u></u>

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Note 23 – Subsequent Event

On July 31, 2012, the School District issued \$6,894,719 of general obligation bonds that were issued to refund the \$10.5 million bond issue from an election held on November 5, 2002 for the purpose of renovating, remodeling, rehabilitating, adding to, furnishing, equipping and otherwise improving school facilities, and acquiring, clearing and improving school facility sites. General obligation refunding bonds were issued for a nine year period with a maturity date of December 15, 2026, and an interest rate of 2.00 -2.75 percent. The bond issue includes serial and capital appreciation bonds in the amounts of \$6,820,000 and \$74,719, respectively.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
Passed through Ohio Department of Education						
<i>Child Nutrition Cluster:</i>						
National School Breakfast Program	10.553	050674-05PU-09	\$ 278,388	\$ 0	\$ 278,388	\$ 0
National School Lunch Program-See Note 2	10.555	050674-LLP4-09	769,631	55,016	769,631	55,016
<i>Total Child Nutrition Cluster</i>			<u>1,048,019</u>	<u>55,016</u>	<u>1,048,019</u>	<u>55,016</u>
Total U.S. Department of Agriculture			<u>1,048,019</u>	<u>55,016</u>	<u>1,048,019</u>	<u>55,016</u>
U.S. Department of Education						
Passed through Ohio Department of Education						
<i>Title I Grant Cluster:</i>						
Title I - Grants to Local Educational Agencies	84.010		890,812	0	984,573	0
School Improvement Subsidy A, Title I	84.010		74,684	0	173,364	0
ARRA - Title I Grants to Local Educational Agencies	84.389		85,938	0	22,167	0
<i>Total Title I Grant Cluster</i>			<u>1,051,434</u>	<u>0</u>	<u>1,180,104</u>	<u>0</u>
<i>Special Education Cluster:</i>						
Special Education Grants to States - IDEA, Part B	84.027		724,671	0	751,134	0
Special Education-Pre-School Grants	84.173		12,961	0	22,870	0
<i>Total Special Education Cluster</i>			<u>737,632</u>	<u>0</u>	<u>774,004</u>	<u>0</u>
Safe and Drug-Free Schools and Communities	84.186		76,831	0	75,000	0
Education Technology (Title II, Part D)	84.318		7,196	0	4,519	0
ARRA - Education Technology (Title II, Part D)	84.386		71,796	0	505	0
Total Education Technology (Title II, Part D)			<u>78,992</u>	<u>0</u>	<u>5,024</u>	<u>0</u>
Improving Teacher Quality (Title II-A)	84.367		133,536	0	135,144	0
Improving Teacher Quality (Title II-A) - Cleveland Diocese	84.367		417,437	0	412,131	0
Total Improving Teacher Quality (Title II-A)			<u>550,973</u>	<u>0</u>	<u>547,275</u>	<u>0</u>
ARRA - Education for Homeless Children & Youth	84.387		9,208	0	9,545	0
ARRA - Race to the Top	84.395A		3,150	0	3,150	0
Education Jobs Fund	84.410		686,090	0	782,379	0
Total U.S. Department of Education			<u>3,194,310</u>	<u>0</u>	<u>3,376,481</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,242,329</u>	<u>\$ 55,016</u>	<u>\$ 4,424,500</u>	<u>\$ 55,016</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
NOTES TO THE SUPPLEMENTAL SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Garfield Heights City School District (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE 2: CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE 3: FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Garfield Heights City School District
Garfield Heights, Ohio

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, as of and for the year ended June 30, 2012, which collectively comprise the Garfield Heights City School District, Ohio's basic financial statements and have issued our report thereon dated November 27, 2012, wherein we noted that the District restated its net assets at June 30, 2011 due to an understatement of payment in lieu of taxes. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Garfield Heights City School District, Ohio, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Garfield Heights City School District, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Garfield Heights City School District, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Garfield Heights City School District, Ohio's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Garfield Heights City School District, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Garfield Heights City School District, Ohio, in a separate letter dated November 27, 2012.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



James G. Zupka, CPA, Inc.
Certified Public Accountants

November 27, 2012

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Garfield Heights City School District
Garfield Heights, Ohio

Compliance

We have audited the Garfield Heights City School District, Cuyahoga County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Garfield Heights City School District, Ohio's major federal programs for the year ended June 30, 2012. The Garfield Heights City School District, Ohio's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Garfield Heights City School District, Ohio's management. Our responsibility is to express an opinion on the Garfield Heights City School District, Ohio'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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Garfield Heights City School District, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Garfield Heights City School District, Ohio's compliance with those requirements.

In our opinion, the Garfield Heights City School District, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

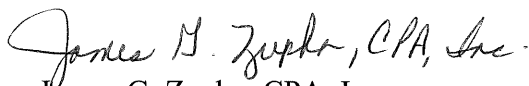
Management of the Garfield Heights City School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Garfield Heights City School District, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Garfield Heights City School District, Ohio's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

We noted a certain matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report that we reported to the Garfield Heights City School District, Ohio's management in a separate letter dated November 27, 2012.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


James G. Zupka, CPA, Inc.
Certified Public Accountants

November 27, 2012

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & §.505
 JUNE 30, 2012**

1. SUMMARY OF AUDITOR’S RESULTS

2012(i)	Type of Financial Statement Opinion	Unqualified
2012(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2012(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2012(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
2012(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2012(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2012(v)	Type of Major Program’s Compliance Opinion	Unqualified
2012(vi)	Are there any reportable findings under .510?	No
2012(vii)	Major Programs (list): Child Nutrition Cluster: School Breakfast Program, CFDA # 10.553 School Lunch Program, CFDA # 10.555 Improving Teacher Quality, CFDA # 84.367 Education Jobs Fund, CFDA # 84.410	
2012(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2012(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012**

Finding 2011-001	Proper Reporting of Financial Statements	Corrected
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Management letter recommendations as of June 30, 2011, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • 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
FEBRUARY 14, 2013**