



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio, as of June 30, 2004, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

**Betty Montgomery**  
Auditor of State

September 11, 2006

**Garfield Heights City School District  
Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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The management's discussion and analysis of the Garfield Heights City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this management's discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for 2004 are as follows:

- ❑ General Revenues accounted for \$31,994,361 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants, and contributions accounted for \$7,055,583 or 18% of total revenues of \$39,049,944.
- ❑ Total program expenses were \$42,285,907. Instructional expenses made up 40% of this total while support services accounted for 44%. Other expenses rounded out the remaining 16%.
- ❑ In total, net assets of governmental activities decreased \$3,235,963, which represents over a 490% decrease from 2003.

***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Garfield Heights City School District**  
**Cuyahoga County**

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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

*Fund Financial Statements*

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

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

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

The proprietary fund financial statements begin on page 20.

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

The fiduciary fund financial statements begin on page 23.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25.

**Garfield Heights City School District  
Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(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 2004 compared to 2003:

**Table 1  
Net Assets**

	<u>2004</u>	<u>Restated 2003</u>
<b>Assets</b>		
Current and Other Assets	\$ 31,834,282	\$ 46,075,153
Capital Assets	<u>46,563,790</u>	<u>39,474,241</u>
Total Assets	<u>78,398,072</u>	<u>85,549,394</u>
<b>Liabilities</b>		
Long-Term Liabilities	62,617,332	49,112,807
Other Liabilities	<u>19,673,428</u>	<u>37,093,312</u>
Total Liabilities	<u>82,290,760</u>	<u>86,206,119</u>
<b>Net Assets</b>		
Invested in Capital		
Assets Net of Debt	(3,028,808)	14,208,139
Restricted	8,706,250	19,690,706
Unrestricted (Deficit)	<u>(9,570,130)</u>	<u>(34,555,570)</u>
Total Net Assets	<u>\$ (3,892,688)</u>	<u>\$ (656,725)</u>

Total assets decreased by \$7.2 million. This decrease was a result of using funds on hand from the previous year to retire debt obligations during the current fiscal year. Total liabilities decreased \$3.9 million. The primary factors causing this overall decrease was the principal retirement for debt (that was not subsequently re-issued) and capital leases, the reduction in compensated absences estimate as compared to the prior year, and from the recognition of more revenue, as opposed to unearned revenue, on the modified accrual basis for property taxes available as an advance from the County Auditor. See Note 2.D. of the basic financial statements for more detail on the recognition of property tax receivable.

**Garfield Heights City School District  
Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

Table 2 shows the changes in net assets for fiscal year 2004 as compared to 2003:

**Table 2  
Statement of Activities**

	2004	2003 Restated
<b>Program Revenues</b>		
Charges for Services and Sales	\$ 1,393,889	\$ 1,046,368
Operating Grants, Interest and Contributions	5,661,694	3,107,603
<b>General Revenues</b>		
Property Taxes	16,734,445	13,359,028
Grants and Entitlements	14,421,856	13,325,756
Investments	221,488	609,126
Miscellaneous	474,072	282,214
Gain on Sale of Capital Assets	142,500	-
Total Revenues	39,049,944	31,730,095
<b>Program Expenses</b>		
Instruction	17,124,636	15,260,258
Support Services	18,498,811	14,706,079
Operation of Non-Instructional Services	1,962,065	1,482,815
Food Service Operations	1,372,014	1,215,768
Extracurricular Activities	649,444	650,946
Interest and Fiscal Charges	2,519,029	2,200,568
Uniform School Supplies	159,908	165,480
Total Program Expenses	42,285,907	35,681,914
 Change in Net Assets	 (3,235,963)	 (3,951,819)
 Net Assets Beginning of Year	 (656,725)	 3,295,094
Net Assets End of Year	(\$3,892,688)	(\$656,725)

Operating grants, interest and contributions increased by \$2.6 million or 82 percent. The primary increase was from an increase of \$1.1 million in state and basic aid unrestricted grants. Property tax revenues increased nearly \$3.4 million or 25 percent as compared to the prior year. Overall, program expenses increased over \$6.6 million over the prior year. Instruction and Support Services reported the majority of this increase.

**Garfield Heights City School District**  
**Cuyahoga County**

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

**Governmental Activities**

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

**Table 3**  
**Governmental Activities**

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 17,124,636	\$ (15,241,007)	\$ 15,260,258	\$ (14,135,929)
Support Services:				
Pupil and Instructional Staff	4,475,817	(3,129,800)	4,417,226	(4,043,632)
Board of Education, Administration, Fiscal and Business	4,742,662	(4,623,178)	4,377,588	(4,243,878)
Operation and Maintenance of Plant	8,238,886	(8,139,211)	4,668,907	(4,668,907)
Pupil Transportation	744,534	(744,534)	985,188	(985,188)
Central	296,912	(197,126)	257,170	(254,044)
Operation of Non-Instructional Services	1,962,065	(49,814)	1,482,815	(283,868)
Extracurricular Activities	649,444	(389,658)	650,946	(518,781)
Interest and Fiscal Charges	2,519,029	(2,519,029)	2,200,568	(2,200,568)
Food Services Operations	1,372,014	(174,100)	1,215,768	(201,083)
Uniform School Supplies	159,908	(22,867)	165,480	(11,803)
Total Expenses	\$ 42,285,907	\$ (35,230,324)	\$ 35,681,914	\$ (31,547,681)

Instruction and student support services comprise 84% of governmental program expenses. Interest and fiscal charges were 6%. Interest expense was attributable to the outstanding bonds, and fiscal expenses including payments to the County Auditor(s) for administrative fees. All other expenses account for 10% of the total governmental program expenses.

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

**Garfield Heights City School District  
Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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***Financial Analysis of the Governmental Funds***

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$38,939,279 and expenditures of \$62,377,456. The net change in fund balance for the year was most significant in the debt service fund and the building capital projects fund, with a decrease of \$10,478,149 and \$1,009,560 respectively. The decrease in the debt service fund was a result of prior year resources on hand used to retire outstanding bond anticipation notes. The decrease in fund balance for the buildings capital projects fund was caused by the continued costs associated with construction and renovation of buildings of the School District.

***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 2004, there were minor changes to the School District's overall general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual revenues of \$28,034,184 were over the final budgeted estimate of \$27,229,890. The primary factors of actual revenues exceeding the final estimated amounts by \$804,294 was due a conservation estimate for state and basic aid unrestricted revenue.

Final expenditures of \$28,907,115, plus current year encumbrances, shows a favorable variance of \$603,710 over the final appropriations. There were no individually significant factors that contributed to this variance as all functional expenditure categories were under budgeted amounts.

**Garfield Heights City School District**  
**Cuyahoga County**

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2004, the School District had \$46,563,790 invested in land, buildings, equipment, vehicles, and textbooks. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	<u>2004</u>	<u>2003</u>
Land	\$ 833,150	\$ 990,700
Land Improvements	667,721	146,632
Buildings and Improvements	41,128,305	4,882,614
Furniture and Equipment	2,676,346	1,384,131
Vehicles	465,521	585,357
Textbooks	792,747	984,389
Construction In Progress	<u>0</u>	<u>30,500,418</u>
Totals	<u>\$ 46,563,790</u>	<u>\$ 39,474,241</u>

The primary cause of the increase in overall net capital assets of \$7,089,549 was the result of the substantial completion of the construction of the School District's new high school and renovations to the middle and elementary school buildings.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$524,892 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks. See Note 9 of the basic financial statements for more detail of the School District capital assets.

**Garfield Heights City School District  
Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

**Debt**

At June 30, 2004, the School District had \$2,269,415 in short-term notes and \$53,213,967 in long-term general obligation bonds, which includes unamortized debt issuance premium (\$195,290) and accreted interest on capital appreciation bonds (\$16,402). The School District also reported \$4,173,822 in outstanding capital lease obligations as of year end. Table 5 summarizes bonds outstanding.

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

	Governmental Activities 2004	Governmental Activities 2003
General Obligation Bonds:		
School Improvement Bonds-2001 5.39%, 12/26	\$ 39,502,275	\$ 40,462,275
Qualified Zone Academy Bonds	3,000,000	3,000,000
School Improvement Bonds-2004 4.370%, 12/26	10,005,000	0
Unamortized Premium on issuance	195,290	0
Capital Appreciation Bonds 7.284%	365,000	0
Capital Appreciation Bonds 7.125%	130,000	0
Accretion on \$365,000	12,164	0
Accretion on \$130,000	4,238	0
Total General Obligation Bonds	\$ 53,213,967	\$ 43,462,275

During the fiscal year, the School District issued \$10,005,000 of Series 2004 School Improvement Bonds, which were used to retire bond anticipation notes issued during the prior fiscal year. Proceeds from these issuances are part of the continued goal of the School District of rebuilding the School District buildings to be in compliance with the Ohio School Facilities Commission. See Note 15 of the basic financial statements for more detail of the School District debt obligations.

***Current Issues***

The School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district for new operating dollars was in November, 1992, with the promise that the revenue generated by a levy would provide sufficient funding for five years.

**Garfield Heights City School District  
Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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

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 taxes made up 42.9% of revenues for governmental activities for the School District in fiscal year 2004.

The School District has also been affected by state foundation cuts, decreased interest rates, increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2004. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

***Contacting the School District's Financial Management***

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

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**Garfield Heights City School District**  
**Cuyahoga County**

*Statement of Net Assets*  
*June 30, 2004*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 11,454,179
Cash and Cash Equivalents:	
With Fiscal Agents	151,819
Receivables:	
Taxes	18,856,622
Accounts	4,119
Accrued Interest	2,685
Intergovernmental	1,364,858
Nondepreciable Capital Assets	833,150
Depreciable Capital Assets (Net)	45,730,640
<i>Total Assets</i>	78,398,072
<b>Liabilities</b>	
Accounts Payable	308,178
Accrued Wages and Benefits	2,693,513
Mature Compensated Absences Payable	208,769
Intergovernmental Payable	952,297
Unearned Revenue	15,344,613
Claims Payable	166,058
Long Term Liabilities:	
Due Within One Year	3,796,163
Due Within More Than One Year	58,821,169
<i>Total Liabilities</i>	82,290,760
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	(3,028,808)
Restricted for:	
Capital Projects	6,419,078
Debt Service	1,174,413
Other Purposes	1,112,759
Unrestricted	(9,570,130)
<i>Total Net Assets</i>	\$ (3,892,688)

See accompanying notes to the basic financial statements.

**Garfield Heights City School District  
Cuyahoga County**

*Statement of Activities  
For the Year Ended June 30, 2004*

	Program Revenues			Net (Expense) Revenues and Changes In Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental Activities</b>				
Current:				
Instruction:				
Regular	\$ 14,160,589	\$ 380,228	\$ 487,251	\$ (13,293,110)
Special	2,002,602	0	1,016,150	(986,452)
Vocational	241,719	0	0	(241,719)
Other	719,726	0	0	(719,726)
Support Services:				
Pupils	2,434,704	0	1,188,362	(1,246,342)
Instructional Staff	2,041,113	0	157,655	(1,883,458)
Board of Education	43,866	0	0	(43,866)
Administration	2,733,066	0	109,258	(2,623,808)
Fiscal	1,035,939	0	10,226	(1,025,713)
Business	929,791	0	0	(929,791)
Operation and Maintenance of Plant	8,238,886	0	99,675	(8,139,211)
Pupil Transportation	744,534	0	0	(744,534)
Central	296,912	0	99,786	(197,126)
Operation of Non-Instructional Services	1,962,065	8,171	1,904,080	(49,814)
Food Service Operations	1,372,014	608,663	589,251	(174,100)
Uniform School Supplies	159,908	137,041	0	(22,867)
Recreation - Fitness Center	4,795	4,715	0	(80)
Extracurricular Activities	644,649	255,071	0	(389,578)
Debt Service:				
Interest and Fiscal Charges	2,519,029	0	0	(2,519,029)
<b>Totals</b>	<b>\$ 42,285,907</b>	<b>\$ 1,393,889</b>	<b>\$ 5,661,694</b>	<b>(35,230,324)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	13,599,069
Debt Service	2,782,238
Capital Outlay	353,138
Grants and Entitlements not Restricted to Specific Programs	14,421,856
Investment Earnings	221,488
Miscellaneous	474,072
Gain on Sale of Capital Assets	142,500

Total General Revenues 31,994,361

Change in Net Assets (3,235,963)

Net Assets Beginning of Year (Restated See Note 3) (656,725)

Net Assets End of Year \$ (3,892,688)

See accompanying notes to the basic financial statements.

**Garfield Heights City School District  
Cuyahoga County**

*Balance Sheet  
Governmental Funds  
June 30, 2004*

	General	Debt Service	Permanent Improvements Capital Projects	Building Fund Capital Projects	Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 574,399	\$ 584,517	\$ 120,331	\$ 8,535,897	\$ 410,523	\$ 10,225,667
Cash and Cash Equivalents:						
With Fiscal Agents	151,819	0	0	0	0	151,819
Receivables:						
Taxes	15,245,507	3,167,264	443,851	0	0	18,856,622
Accounts	4,119	0	0	0	0	4,119
Interfund	341,749	0	0	0	0	341,749
Interest	2,685	0	0	0	0	2,685
Intergovernmental	9,840	0	0	0	1,355,018	1,364,858
<i>Total Assets</i>	<u>\$ 16,330,118</u>	<u>\$ 3,751,781</u>	<u>\$ 564,182</u>	<u>\$ 8,535,897</u>	<u>\$ 1,765,541</u>	<u>\$ 30,947,519</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 98,154	\$ 0	\$ 17,619	\$ 32,912	\$ 159,493	\$ 308,178
Accrued Wages and Benefits	2,554,018	0	0	0	139,495	2,693,513
Mature Compensated Absences Payable	208,769	0	0	0	0	208,769
Interfund Payable	0	0	0	0	341,749	341,749
Due to Other Governments	571,093	0	0	0	31,224	602,317
Deferred Revenue	12,574,908	2,611,168	365,921	0	904,233	16,456,230
Energy Conservation Loan Payable	0	0	2,269,415	0	0	2,269,415
<i>Total Liabilities</i>	16,006,942	2,611,168	2,652,955	32,912	1,576,194	22,880,171
<b>Fund Balances</b>						
Fund Balance:						
Reserved for Encumbrances	218,136	0	18,186	919,486	403,598	1,559,406
Reserved for Tax Revenue Unavailable for Appropriation	2,676,749	556,096	77,930	0	0	3,310,775
Reserved for Budget Stabilization	125,721	0	0	0	0	125,721
Unreserved:						
Undesignated, Reported in:						
General Fund	(2,697,430)	0	0	0	0	(2,697,430)
Special Revenue Funds	0	0	0	0	(214,380)	(214,380)
Debt Service Fund	0	584,517	0	0	0	584,517
Capital Projects Funds	0	0	(2,184,889)	7,583,499	129	5,398,739
<i>Total Fund Balances</i>	<u>323,176</u>	<u>1,140,613</u>	<u>(2,088,773)</u>	<u>8,502,985</u>	<u>189,347</u>	<u>8,067,348</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 16,330,118</u>	<u>\$ 3,751,781</u>	<u>\$ 564,182</u>	<u>\$ 8,535,897</u>	<u>\$ 1,765,541</u>	<u>\$ 30,947,519</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District**  
**Cuyahoga County**

*Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
June 30, 2004*

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Total Governmental Fund Balances		\$ 8,067,348
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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.		46,563,790
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Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds. These deferrals are attributed to:		
Grants	910,383	
Delinquent Property Taxes	201,234	1,111,617

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,062,454
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
General Obligation Bonds	(53,002,275)	
Unamortized Premium on Debt Issuance	(195,290)	
Accretion on Capital Appreciation Bonds	(16,402)	
Capital Lease Payable	(4,173,822)	
Compensated Absences - Sick Leave	(2,899,545)	
Compensated Absences - Vacation	(4,518)	
Severance Payable	(56,065)	
Due to Other Governments	(349,980)	(60,697,897)

Net Assets of Governmental Activities		\$ (3,892,688)
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**Garfield Heights City School District  
Cuyahoga County**

*Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004*

	General	Debt Service	Permanent Improvement Capital Projects	Building Fund Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 14,258,654	\$ 2,915,149	\$ 389,910	\$ 0	\$ 0	\$ 17,563,713
Intergovernmental	13,995,251	366,573	49,742	0	4,874,551	19,286,117
Investment Income	220,431	0	0	0	1,057	221,488
Tuition and Fees	380,228	0	0	0	0	380,228
Extracurricular Activities	0	0	0	0	263,242	263,242
Charges For Services	137,041	0	0	0	613,378	750,419
Miscellaneous	336,001	0	0	0	138,071	474,072
<i>Total Revenues</i>	<u>29,327,606</u>	<u>3,281,722</u>	<u>439,652</u>	<u>0</u>	<u>5,890,299</u>	<u>38,939,279</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	13,321,125	0	73,345	0	502,408	13,896,878
Special	924,580	0	0	0	1,072,976	1,997,556
Vocational	255,676	0	0	0	0	255,676
Other	719,726	0	0	0	0	719,726
Support Services:						
Pupils	1,849,674	0	0	0	561,789	2,411,463
Instructional Staff	1,857,818	0	0	0	171,344	2,029,162
Board of Education	43,866	0	0	0	0	43,866
Administration	2,546,970	0	0	17,933	148,052	2,712,955
Fiscal	1,010,695	0	0	0	21,256	1,031,951
Business	940,089	0	0	0	0	940,089
Operation and Maintenance of Plant	2,783,347	0	1,219,505	0	75,851	4,078,703
Pupil Transportation	647,470	0	0	0	0	647,470
Central	232,183	0	0	0	68,203	300,386
Operation of Non-Instructional Services	120	0	0	0	1,948,180	1,948,300
Food Service Operations	0	0	0	0	1,333,986	1,333,986
Uniform School Supplies	159,908	0	0	0	0	159,908
Recreation - Fitness Center	0	0	0	0	4,795	4,795
Extracurricular Activities	347,174	0	0	0	327,075	674,249
Capital Outlay	451,271	0	55,265	11,993,481	0	12,500,017
Debt Service:						
Principal Retirement	512,781	11,460,000	186,809	0	0	12,159,590
Interest and Fiscal Charges	209,320	2,299,871	21,539	0	0	2,530,730
<i>Total Expenditures</i>	<u>28,813,793</u>	<u>13,759,871</u>	<u>1,556,463</u>	<u>12,011,414</u>	<u>6,235,915</u>	<u>62,377,456</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	513,813	(10,478,149)	(1,116,811)	(12,011,414)	(345,616)	(23,438,177)
<b>Other Financing Sources (Uses):</b>						
Proceeds of Bonds	0	0	0	10,500,000	0	10,500,000
Inception of Capital Lease	0	0	964,380	0	0	964,380
Proceeds From Sales of Capital Assets	0	0	0	300,000	0	300,000
Premium on Debt Issuance	0	0	0	195,290	0	195,290
Accrued Interest	0	0	0	6,564	0	6,564
Transfers In	0	0	100,000	0	260,538	360,538
Transfers Out	(360,538)	0	0	0	0	(360,538)
<i>Total Financing Sources and (Uses)</i>	<u>(360,538)</u>	<u>0</u>	<u>1,064,380</u>	<u>11,001,854</u>	<u>260,538</u>	<u>11,966,234</u>
<i>Net Change in Fund Balance</i>	153,275	(10,478,149)	(52,431)	(1,009,560)	(85,078)	(11,471,943)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>169,901</u>	<u>11,618,762</u>	<u>(2,036,342)</u>	<u>9,512,545</u>	<u>274,425</u>	<u>19,539,291</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 323,176</u>	<u>\$ 1,140,613</u>	<u>\$ (2,088,773)</u>	<u>\$ 8,502,985</u>	<u>\$ 189,347</u>	<u>\$ 8,067,348</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District  
Cuyahoga County**

*Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds to the Statement of Net Activities  
For the Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds		\$ (11,471,943)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Outlay	8,371,064	
Depreciation Expense	<u>(1,123,965)</u>	7,247,099
Net effect of transactions involving sale of capital assets are not reflected in the funds.		(157,550)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	797,433	
Delinquent Property Taxes	<u>(829,268)</u>	(31,835)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond and Note Principal	11,460,000	
Capital Leases	<u>721,129</u>	12,181,129
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Inception of Capital Lease	(964,380)	
Proceeds of Bonds	(10,701,854)	
Bond Accretion	(16,402)	
Accrued Interest	6,564	
Compensated Absences	806,683	
Pension Obligation	<u>(12,157)</u>	(10,881,546)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.		
		<u>(121,317)</u>
Change in Net Assets of Governmental Activities		<u>\$ (3,235,963)</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District  
Cuyahoga County**

*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget Basis (Non-GAAP) and Actual  
General Fund  
For the Year Ended June 30, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 14,598,271	\$ 14,433,018	\$ 12,850,622	\$ (1,582,396)
Intergovernmental	11,794,769	11,794,769	13,994,561	2,199,792
Investment Income	286,429	286,429	339,850	53,421
Tuition and Fees	320,460	320,460	380,228	59,768
Charges for Services	115,323	115,323	136,831	21,508
Miscellaneous	279,891	279,891	332,092	52,201
<i>Total Revenues</i>	<u>27,395,143</u>	<u>27,229,890</u>	<u>28,034,184</u>	<u>804,294</u>
<b>Expenditures:</b>				
<b>Current</b>				
Instruction	14,724,134	15,217,026	14,969,552	247,474
Support Services				
Pupils	1,794,165	1,854,452	1,830,971	23,481
Instructional Staff	1,817,821	1,878,861	1,853,828	25,033
Board of Education	42,828	44,242	42,935	1,307
Administration	2,484,756	2,568,039	2,529,372	38,667
Fiscal	1,082,016	1,118,405	1,105,163	13,242
Business	955,553	986,633	943,933	42,700
Operation and Maintenance of Plant	3,637,040	3,755,769	3,605,903	149,866
Pupil Transportation	690,838	713,306	682,361	30,945
Central	245,786	253,729	241,242	12,487
Operation of Non-Instructional Services	166,718	172,115	163,912	8,203
Extracurricular Activities	325,819	336,787	333,127	3,660
Capital Outlay	441,371	456,229	451,271	4,958
Debt Service				
Principal Retirement	150,176	155,232	153,545	1,687
<i>Total Expenditures</i>	<u>28,559,021</u>	<u>29,510,825</u>	<u>28,907,115</u>	<u>603,710</u>
Excess of Revenues Over (Under) Expenditures	(1,163,878)	(2,280,935)	(872,931)	1,408,004
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	0	0	55,058	55,058
Refund of Prior Year Receipts	46,403	46,403	0	(46,403)
Advances Out	(261,577)	(270,383)	(267,444)	2,939
Transfers Out	(256,298)	(265,236)	(260,539)	4,697
<i>Total Other Financing Sources (Uses)</i>	<u>(471,472)</u>	<u>(489,216)</u>	<u>(472,925)</u>	<u>16,291</u>
<i>Net Change in Fund Balance</i>	<u>(1,635,350)</u>	<u>(2,770,151)</u>	<u>(1,345,856)</u>	<u>1,424,295</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	1,813,428	1,813,428	1,813,428	0
Prior Year Encumbrances	286,083	286,083	286,083	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 464,161</u>	<u>\$ (670,640)</u>	<u>\$ 753,655</u>	<u>\$ 1,424,295</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District**  
**Cuyahoga County**

*Statement of Net Assets*  
*Proprietary Funds*  
*June 30, 2004*

	<u>Internal Service Fund</u>
<b>Assets</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 1,228,512
<b>Liabilities</b>	
Current Liabilities:	
Claims Payable	<u>166,058</u>
<i>Total Current Liabilities</i>	166,058
<b>Net Assets</b>	
Unrestricted	<u>1,062,454</u>
<b><i>Total Liabilities and Net Assets</i></b>	<u><u>\$ 1,062,454</u></u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District**  
**Cuyahoga County**

*Statement of Revenues, Expenses and Changes in Net Assets*  
*Proprietary Funds*  
*For the Year Ended June 30, 2004*

	<u>Internal Service Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 2,126,479
<b>Operating Expenses:</b>	
Claims	<u>2,247,796</u>
<i>Change in Net Assets</i>	(121,317)
<i>Net Assets (Deficit) Beginning of Year (Restated - See Note 3)</i>	<u>1,183,771</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$ 1,062,454</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District**  
**Cuyahoga County**

*Statement of Cash Flows*  
*Proprietary Funds*  
*For the Year Ended June 30, 2004*

	<u>Internal Service Fund</u>
<b>Cash Flows From Operating Activities:</b>	
Cash From Charges for Services	\$ 2,126,479
Cash Paid for Claims	<u>(2,116,732)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>9,747</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	9,747
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>1,218,765</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 1,228,512</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash     Provided By (Used For) Operating Activities:</b>	
Operating Income (Loss)	\$ (121,317)
Adjustments:	
Increase (Decrease) in Liabilities	
Claims Payable	<u>131,064</u>
<i>Total Adjustments</i>	<u>131,064</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u><u>\$ 9,747</u></u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District**  
**Cuyahoga County**

*Statement of Fiduciary Net Assets*  
*Agency Funds*  
*June 30, 2004*

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 38,965
<b>Liabilities</b>	
Accounts Payable	\$ 567
Undistributed Monies	38,398
<i>Total Liabilities</i>	<u>\$ 38,965</u>

See accompanying notes to the basic financial statements.

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**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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**Note 1 - Description of the School District and Reporting Entity**

Garfield Heights City School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. This Board controls the School District's seven instructional/support facilities by 209 non-certified employees, 239 certified full time teaching personnel and administrative employees to provide services to 3,853 students and other community members.

***Reporting Entity***

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

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

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

The School District is associated with three jointly governed organizations and one insurance purchasing pool. These organizations include the Lake-Shore Northeast Ohio Computer Association, Ohio Schools Council Association, Cuyahoga Valley Career Center, and Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the general purpose financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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***A. Basis of Presentation***

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

***Government-wide Financial Statements***

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

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

***Fund Financial Statements***

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

***B. Fund Accounting***

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

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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***Governmental Funds***

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

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

***Debt Service Fund*** - The debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, general obligation bonds used for the construction of a new middle school and additions to the intermediate school.

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

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

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

***Proprietary Fund Type***

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

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

***Fiduciary Funds***

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

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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***C. Measurement Focus***

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

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

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

***D. Basis of Accounting***

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

***Revenues - Exchange and Non-Exchange Transactions***

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements

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

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

***Deferred Revenue***

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures***

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

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

***E. Cash and Cash Equivalents***

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

During fiscal year 2004, investments were made in repurchase agreements, certificates of deposit, Federal National Mortgage Association Notes, Federal Farm Credit Bank Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Victory Federal Money Market account, Victory Gradison Government Reserves Money Market account, Federal Agri Mtg Corp., Commercial Paper, and STAROhio, the State Treasurer's investment pool.

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

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STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004. Certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$220,431, of which \$205,671 is from other funds.

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

***F. Inventory***

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis and are expensed when used. Inventory balances at year end were insignificant.

***G. Restricted Assets***

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material, capital asset improvements, and to create a reserve for budget stabilization. See Note 22 for additional information regarding set asides.

***H. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Governmental Activities Estimated Lives
Land Improvements	15-20 Years
Building and Improvements	10-40 Years
Furniture and Equipment	5 - 20 Years
Vehicles	8 Years
Textbooks	5 Years

***I. Interfund Balances***

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

***J. Compensated Absences***

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

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

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

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

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

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

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

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***L. Net Assets***

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

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

***M. Fund Balance Reserves***

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

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

***N. Operating Revenues and Expenses***

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

***O. Interfund Activity***

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

***P. 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. Neither type of transaction occurred during fiscal 2004.

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***Q. 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.

***R. 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 level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

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 years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

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

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

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**Notes to the Basic Financial Statements  
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**Note 3 – Restatement of Prior Year Net Assets**

During the year, it was determined that previously reported Rotary (Internal Service Fund) was better classified as agency fund based on the provision of GASB Statement No. 34.

	Internal Service Fund	Governmental Activities
Net Assets, June 30, 2003	\$ 1,207,904	\$ (632,592)
Fund Reclassification to Agency	(24,133)	(24,133)
Restated Net Assets, June 30, 2003	\$ 1,183,771	\$ (656,725)

**Note 4 – Accountability**

***Fund Deficit***

Fund balances/net assets at June 30, 2004 included the following individual fund deficits:

	Deficit	
	Fund Balance	Net Assets
General Fund	N/A	\$ (7,563)
Special Revenue Funds:		
Recreation	(80)	(80)
Student Activities	(66,182)	(66,182)
Disadvantaged Pupil Impact Aid	(2,121)	(3,977)
Title VI-B	(12,596)	(12,596)
Miscellaneous Federal	(2,115)	0
Capital Projects Funds:		
Permanent Improvements	(2,088,773)	(2,084,036)

The deficits in these funds resulted from adjustments for accrued liabilities. The deficit in the capital projects fund is the fact that permanent long term financing is not in place currently. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

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

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

<b>Net Change In Fund Balance General Fund</b>	
	General
Budget Basis	\$ (1,345,856)
Adjustments, increase (decrease)	
Revenue accruals	1,227,463
Expenditures accruals	13,680
Encumbrances	257,988
GAAP basis, as reported	\$ 153,275

**Note 6 - Deposits and investments**

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

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

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

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

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

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits at fiscal year end, the carrying amount of the School District's deposits was \$(531,711) and the bank balance was \$282,714. Of the bank balance:

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1. \$49,435 was covered by federal depository insurance; and
2. \$233,279 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution trust department or agent in the School District's name all State statutory requirements for the deposit of money have been followed, non compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Insurance Corporation.

*Investments* GASB Statement No. 3 requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The District's investments in STAROhio, JP Morgan Money Market, Victory Federal Money Market Fund and Victory Gradison Government Reserves are unclassified since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$ 2,054,676	\$ 2,054,676	\$ 2,054,676
Federal National Mortgage Association Notes	1,397,340	1,397,340	1,397,340
Federal Home Loan Bank Notes	621,024	621,024	621,024
Federal Home Loan Mortgage Corporation Notes	2,764,680	2,764,680	2,764,680
Commercial Paper	59,732	59,732	59,732
JP Morgan Money Market	0	3,011,353	3,011,353
Victory Federal Money Market Fund	0	1,646,532	1,646,532
Victory Gradison Government Reserves			
Money Market Fund	0	259,977	259,977
STAROhio	0	361,360	361,360
Totals	<u>\$ 6,897,452</u>	<u>\$ 12,176,674</u>	<u>\$ 12,176,674</u>

The classification of cash and cash equivalents, and investments on the combined basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

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A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
<b>GASB Statement 9:</b>	\$ 11,644,963	\$ 0
<b>Investments:</b>		
Repurchase Agreement	(2,054,676)	2,054,676
Victory Federal Money Market Fund	(1,646,532)	1,646,532
Victory Gradison Government Reserves Money Market Fund	(259,977)	259,977
Federal National Mortgage Association Notes	(1,397,340)	1,397,340
Federal Home Loan Bank Notes	(621,024)	621,024
Federal Home Loan Mortgage Corporation Notes	(2,764,680)	2,764,680
Commercial Paper	(59,732)	59,732
JP Morgan Money Market	(3,011,353)	3,011,353
STAROhio	(361,360)	361,360
<b>GASB Statement 3</b>	<b>\$ (531,711)</b>	<b>\$ 12,176,674</b>

**Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2004, on the assessed value listed as of January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value: public utility real property is assessed at 35% of true value. 2003 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory.

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The assessed values upon which the fiscal year 2004 taxes were calculated are:

	2003 Second Half Collections Valuation	2004 First Half Collections Valuation
Real Property		
Residential/Agricultural	\$ 295,926,850	\$ 321,126,110
Commercial/Agricultural	83,212,710	87,733,150
Public Utilities	11,120	12,190
Tangible Personal Property		
General	32,159,384	25,910,675
Public Utilities	16,409,970	17,527,130
Total valuation	\$ 427,720,034	\$ 452,309,255

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. This year, the June 2004 tangible personal property tax settlement was not received until July of 2004.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and, public utility taxes which became measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2004, was \$3,310,775, \$2,676,749 was available to the general fund, \$566,096 to the debt service fund, and \$77,930 was available to the permanent improvement capital projects fund.

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For The Year Ended June 30, 2004**

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**Note 8 - Receivables**

Receivables at June 30, 2004, consisted of accounts, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:

General Fund	\$ 9,840
Food Service Operations	110,731
Student Intervention	50,957
Other Governmental	5,716
Miscellaneous State Grants	2,586
Title I	286,092
Title V	3,115
Drug Free School Grants	1,355
Improving Teacher Quality	92,678
Miscellaneous Federal Grants	801,788
	<u>\$ 1,364,858</u>

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**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/03	Additions	Reductions	Balance 6/30/04
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 990,700	\$ 0	\$ (157,550)	\$ 833,150
Construction in progress	30,500,418	0	(30,500,418)	0
Total Capital Assets, not being depreciated:	31,491,118	0	(30,657,968)	833,150
<i>Capital Assets, being depreciated:</i>				
Land Improvements	492,068	546,110	0	1,038,178
Buildings and Improvements	9,806,207	36,829,972	0	46,636,179
Furniture and Equipment	2,377,537	1,495,400	0	3,872,937
Vehicles	1,225,750	0	0	1,225,750
Textbooks	1,865,810	0	0	1,865,810
Total Capital Assets, being depreciated	15,767,372	38,871,482	0	54,638,854
Less Accumulated Depreciation:				
Land Improvements	(345,436)	(25,021)	0	(370,457)
Buildings and Improvements	(4,923,593)	(584,281)	0	(5,507,874)
Furniture and Equipment	(993,406)	(203,185)	0	(1,196,591)
Vehicles	(640,393)	(119,836)	0	(760,229)
Textbooks	(881,421)	(191,642)	0	(1,073,063)
Total Accumulated Depreciation	(7,784,249)	(1,123,965)	0	(8,908,214)
Total Capital Assets being depreciated, net	7,983,123	37,747,517	0	45,730,640
Governmental Activities Capital Assets, Net	\$ 39,474,241	\$ 37,747,517	\$ (30,657,968)	\$ 46,563,790

Depreciation expense was charged to governmental functions as follows:

Governmental Functions:	
Instruction:	
Regular	\$ 925,751
Support Services:	
Administration	23,974
Operation and Maintenance of Plant	32,634
Pupil Transportation	96,626
Food Service Operations	44,980
	\$ 1,123,965

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**Notes to the Basic Financial Statements  
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**Note 10 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. For fiscal year 2004, the School District contracted with Nationwide Insurance Company for building and contents, boiler and machinery, and crime. General liability is also protected by Nationwide Insurance Company as well as vehicles. Coverages are as follows:

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

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

***B. Workers' Compensation***

For fiscal year 2004, the School District participated in the Ohio School Board Association's Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

***C. Employee Medical Benefits***

The School District has elected to provide medical, vision, dental, and prescription benefits through a self insurance program. The School District maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, Medical Mutual of Ohio,

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reviews and pays all claims which are then reimbursed by the School District. The School District pays into the insurance reserve internal service fund on a monthly basis. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The estimated total required claims incurred but not paid reserve in the internal service fund for the medical and prescription drug insurance at June 30, 2004 is \$166,058.

The claims liability in the internal service fund at June 30, 2004, is based on the requirements of GASB Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 2003 and 2004 were:

	Balance at Beginning of Year	Current Claims	Claim Payments	Balance at End of Year
2003	\$ 118,953	\$ 2,109,431	\$ 2,193,390	\$ 34,994
2004	34,994	2,247,796	2,116,732	166,058

**Note 11 – Contractual Commitments**

As of June 30, 2004, the Garfield Heights City School District had the following contractual commitments outstanding for the construction of a new high school and renovations to the middle and elementary schools:

Contractor	Contract Amount	Amount paid as of 06/30/04	Amount Remaining on Contract
BBC & M Engineering	\$ 14,100	\$ 7,187	\$ 6,913
BrySCO Foodservice Co.	486,032	472,126	13,906
Boise Cascade	33,839	32,485	1,354
Clyde McHenry	574,568	572,128	2,440
Commercial Siding	2,151,284	2,059,680	91,604
Concrete Technolgy	3,701,868	3,553,793	148,075
Custom Fabricators	241,500	229,484	12,016
Dunlop & Johnson	7,498,273	7,446,286	51,987
Edward R. Flynn Co., Inc.	574,018	551,057	22,961
Giambrone Construction	811,731	765,720	46,011
Great Lakes Crushing	444,400	63,204	381,196
Life Fitness	86,286	84,572	1,714
Marvin W. Mieke	596,923	595,174	1,749
Marvin W. Mieke	2,229,266	2,224,016	5,250
Ohio Desk	364,876	350,280	14,596
Ohio Desk	80,705	79,066	1,639
P.P.Y Enterprises, Inc.	216,600	194,559	22,041
R. J. Martins	2,617,379	2,607,378	10,001
The Worden Company	79,495	76,315	3,180
United Mechancial	1,644,855	1,579,316	65,539
P.P.Y Enterprises, Inc.	97,303	89,959	7,344
R. J. Martins	428,033	398,929	29,104
	\$ 24,973,334	\$ 24,032,714	\$ 940,620

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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**Note 12 - Defined Benefit Pension Plans**

***A. School Employees Retirement System***

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$827,172, \$732,195, and \$687,953, respectively; 51% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002, \$419,976 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

***B. State Teachers Retirement System***

The School District participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teacher's Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,863,288, \$1,704,576, and \$1,202,920 respectively; 83% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004 one member of the Board of Education has elected Social Security. The Board's liability is 6.2% of wages paid.

**Note 13 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$133,092 during the 2004 fiscal year.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**Garfield Heights City School District  
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**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$265,012.

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

**Note 14 - Employee Benefits**

***A. Life Insurance***

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

***B. Compensated Absences***

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

*Vacation Leave*

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

*Sick Leave*

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

*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.

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

**Note 15- Long - Term Obligations**

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

	Outstanding 6/30/03	Additions	Reductions	Outstanding 6/30/04	Amounts Due in One Year
<b>Governmental Activities:</b>					
<i>Notes Payable:</i>					
Energy Conservation Notes -3.07%-3.11%	\$ 2,369,415	\$ 0	\$ 2,369,415	\$ 0	\$ 0
Bond Anticipation Note, 1.85%, 1/03-1/04	10,500,000	0	10,500,000	0	0
Energy Conservation Notes - 07/22/2004	0	2,269,415	0	2,269,415	2,269,415
<b>Total Notes Payable</b>	<b>12,869,415</b>	<b>2,269,415</b>	<b>12,869,415</b>	<b>2,269,415</b>	<b>2,269,415</b>
<b>General Obligation Bonds:</b>					
2001 School Improvement Bonds-5.39%, 12/26	40,462,275	0	960,000	39,502,275	265,000
Qualified Zone Academy Bonds	3,000,000	0	0	3,000,000	0
2004 School Improvement Bonds-4.37%, 12/26	0	10,005,000	0	10,005,000	485,000
Unamortized Premium	0	195,290	0	195,290	0
Capital Appreciation Bonds 7.284%	0	365,000	0	365,000	0
Capital Appreciation Bonds 7.125%	0	130,000	0	130,000	0
Accretion on Capital Appreciation bonds	0	12,164	0	12,164	0
Accretion on Capital Appreciation bonds	0	4,238	0	4,238	0
<b>Total General Obligation Bonds</b>	<b>43,462,275</b>	<b>10,711,692</b>	<b>960,000</b>	<b>53,213,967</b>	<b>750,000</b>
Compensated Absences	3,766,811	0	806,683	2,960,128	56,065
Capital Leases	3,930,571	964,380	721,129	4,173,822	720,683
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 64,029,072</u>	<u>\$ 13,945,487</u>	<u>\$ 15,357,227</u>	<u>\$ 62,617,332</u>	<u>\$ 3,796,163</u>

The energy conservation notes are paid from the permanent improvement capital projects fund and are fund obligations shown here for presentation purposes but are not long-term obligations of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. General obligation bonds will be paid from the debt service fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30,	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2005	\$ 750,000	\$ 2,312,779	\$ 0	\$ 0	\$ 750,000	\$ 2,312,779
2006	830,000	2,293,529	0	0	830,000	2,293,529
2007	970,000	2,270,291	0	0	970,000	2,270,291
2008	1,040,000	2,240,598	0	0	1,040,000	2,240,598
2009	1,175,000	2,203,324	0	0	1,175,000	2,203,324
2010 - 2014	6,375,000	10,696,090	495,000	455,000	6,870,000	11,151,090
2015 - 2019	13,402,275	10,241,080	0	0	13,402,275	10,241,080
2020 - 2024	16,145,000	5,076,859	0	0	16,145,000	5,076,859
2025 - 2027	11,820,000	793,006	0	0	11,820,000	793,006
<b>Total</b>	<b>\$ 52,507,275</b>	<b>\$ 38,127,556</b>	<b>\$ 495,000</b>	<b>\$ 455,000</b>	<b>\$ 53,002,275</b>	<b>\$ 38,582,556</b>

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

**Note 16- Capitalized Leases**

Capital lease obligations relate to a telephone system, air handling equipment and computer equipment which are leased under long-term agreements. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13 "Accounting for Leases". Capital lease payments in the governmental funds have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Year	Amount
2005	\$ 877,111
2006	822,878
2007	659,615
2008	663,381
2009	445,857
2010 - 2013	1,353,801
Total Minimum Lease Payments	4,822,643
Less Amount Representing Interest	648,821
Present Value of Minimum Lease Payments	\$ 4,173,822

**Note 17- Deferred/Unearned Revenue**

Deferred/unearned revenue at June 30, 2004 the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 15,344,613	\$ 15,545,847
Grants Receivable	0	910,383
	\$ 15,344,613	\$ 16,456,230

**Note 18- Interfund Transactions**

The account balances by fund of "Interfund Receivable" and "Interfund Payable" as of June 30, 2004 are as follows:

Fund	Receivable	Payable
General Fund	\$ 341,749	\$ 0
Other Governmental Funds	0	341,749
Total	\$ 341,749	\$ 341,749

**Garfield Heights City School District  
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**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2004, all interfund payables outstanding are anticipated to be repaid in fiscal year 2005.

This loan is not anticipated to be repaid. Procedures are in process to reclass this advance (loan) as a transfer in a subsequent period.

The following is a summarized breakdown of the School District's operating transfers for fiscal year 2004:

Fund	Transfers In	Transfers Out
General Fund	\$ 0	\$ (360,538)
Permanent Improvements	100,000	0
Other Governmental Funds	260,538	0
Total	\$ 360,538	\$ (360,538)

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

**Note 19 - Jointly Governed Organizations**

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

The School District is a participant in the Lake-Shore Northeast Ohio Computer Association (LNOCA) which is a computer consortium. LNOCA is an association made up of fourteen participating school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. LNOCA is governed by an assembly consisting of the superintendents or other designees of the member school districts. The assembly exercises total control over the operation of LNOCA including budgeting, appropriating, contracting, and designating management. All the LNOCA revenues are generated from charges for services and state funding. In fiscal year 2004, \$3,229 was paid to LNOCA for services. To obtain information write to LNOCA, 7800 Wall Street, Valley View, Ohio 44125.

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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***B. Ohio Schools Council***

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the members districts. Each district supports the Council by paying an annual participation fee; in fiscal year 2004 the School District's fee to participate was insignificant. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. Financial information can be obtained by contacting the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

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

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

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

***C. Cuyahoga Valley Career Center***

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

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

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**Note 20 - Insurance Purchasing Pool**

***Ohio School Boards Workers' Compensation Group Rating Program***

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

**Note 21 – Contingencies**

***A. Grants***

The School District receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

***B. Litigation***

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

***C. School Funding***

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

The Supreme Court relinquished jurisdiction over the case and directed "the Ohio General Assembly to enact a school funding scheme that is thorough and efficient". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**Garfield Heights City School District  
Cuyahoga County**

**Notes to the Basic Financial Statements  
For The Year Ended June 30, 2004**

**Note 22 - Set-Aside Calculations and Fund Reserves**

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

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2003	\$ 125,721	\$ 0	\$ 0	\$ 125,721
Set-Aside Carry over Balance as of June 30, 2003	0	0	(2,674,790)	(2,674,790)
Current Year Set-Aside Requirement	0	524,892	524,892	1,049,784
Qualifying Disbursements	0	(13,513,232)	(500,580)	(14,013,812)
Total	<u>\$ 125,721</u>	<u>\$(12,988,340)</u>	<u>\$(2,650,478)</u>	<u>\$(15,513,097)</u>
Cash Balance Carried Forward FY 2004	<u>\$ 125,721</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 125,721</u>
Amount to Restrict for Set-Asides				<u>\$ 125,721</u>
Total Restricted Assets				<u>\$ 125,721</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$125,721.

**Note 23 – Subsequent Events**

The School District was placed in fiscal caution in June of 2005 due to a five year forecast projecting negative unencumbered balances in 2006, 2007, and 2008.

One June 20, 2005, the Board approved a resolution for the issuance and sale of bonds in the maximum aggregate principal amount of \$2,050,000 for the purpose of paying costs of installations, modifications, and remodeling of school buildings to conserve energy.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. Department of Agriculture</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$38,629	\$0	\$38,629
School Breakfast Program	05PU-2003	10.553	24,790	0	24,790	0
School Breakfast Program	05PU-2004	10.553	55,532	0	55,532	0
Subtotal School Breakfast Program			80,322	0	80,322	0
National School Lunch Program	LLP4-2003	10.555	109,502	0	109,502	0
National School Lunch Program	LLP4-2004	10.555	266,240	0	266,240	0
Subtotal National School Lunch Program			375,742	0	375,742	0
<b>Total U.S. Department of Agriculture - Nutrition Cluster</b>			<b>456,064</b>	<b>38,629</b>	<b>456,064</b>	<b>38,629</b>
<b>U.S. Department of Education</b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Part A	C1S1-2003	84.010	24,356	0	27,730	0
Title I, Part A	C1S1-2004	84.010	306,220	0	387,479	0
Subtotal Title I, Part A			330,576	0	415,209	0
Special Education Cluster:						
IDEA Part B (Title VI-B)	6BSF-2002	84.027	(1,493)	0	0	0
IDEA Part B (Title VI-B)	6BSF-2003	84.027	0	0	2,318	0
IDEA Part B (Title VI-B)	6BSF-2004	84.027	609,758	0	597,489	0
Subtotal IDEA Part B			608,265	0	599,807	0
Preschool Disability Grant	PGS1-2004	84.173	14,519	0	14,519	0
<b>Total Special Education Cluster</b>			<b>622,784</b>	<b>0</b>	<b>614,326</b>	<b>0</b>
Drug Free School Grant	DRS1-2003	84.186	5,041	0	7,444	0
Drug Free School Grant	DRS1-2004	84.186	10,999	0	11,598	0
Drug Free School Grant - Cleveland Diocese	DRS2-2003	84.186	0	0	11,033	0
Drug Free School Grant - Cleveland Diocese	DRS2-2004	84.186	334,777	0	278,709	0
Total Drug Free School Grant			350,817	0	308,784	0
Even Start - Community Center	EVS1-2003	84.213	0	0	93,628	0
Even Start - Community Center	EVS1-2004	84.213	261,955	0	278,517	0
Total Even Start			261,955	0	372,145	0
Eisenhower Professional Development State Grant	DRS1-2001	84.281	(3,962)	0	0	0
Title V - Innovative Programs	C2S1-2001	84.298	(284)	0	0	0
Title V - Innovative Programs	C2S1-2003	84.298	40	0	5,065	0
Title V - Innovative Programs	C2S1-2004	84.298	32,813	0	29,612	0
Total Title V - Innovative Programs			32,569	0	34,677	0
Title II, Part D - Education Technology	TJS1-2003	84.318	(208)	0	2,215	0
Title II, Part D - Education Technology	TJS1-2004	84.318	7,625	0	5,641	0
Total Title II, Part D - Education Technology			7,417	0	7,856	0
Comprehensive School Reform Demonstration (CSRD)	RFS1-2001	84.332	(13,864)	0	0	0
Comprehensive School Reform Demonstration (CSRD)	RFS2-2002	84.332	(5,293)	0	22,309	0
Comprehensive School Reform Demonstration (CSRD)	RFS3-2003	84.332	78,292	0	75,865	0
Total Comprehensive School Reform Demonstration (CSRD)			59,135	0	98,174	0
Class Size Reduction	CRS1-2001	84.340	(5)	0	0	0
Assistive Technology Infusion	ATS3-2002	84.352A	(44)	0	0	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2003	84.367	6,003	0	21,080	0
Title II, Part A - Teacher and Principal Training and Recruiting	TRS1-2004	84.367	103,248	0	116,159	0
Title II, Part A - Teacher and Principal Training and Recruiting - Cleveland Diocese	TRSA-2003	84.367	21,284	0	98,791	0
Title II, Part A - Teacher and Principal Training and Recruiting - Cleveland Diocese	TRSA-2004	84.367	330,062	0	278,197	0
Total Title II, Part A - Teacher and Principal Training and Recruiting			460,597	0	514,227	0
Safe Schools/Healthy Students	N/A	84.184	528,385	0	528,385	0
<b>Total Passed Through Ohio Department of Education</b>			<b>2,650,224</b>	<b>0</b>	<b>2,893,783</b>	<b>0</b>
<i>Passed Through the Cleveland Municipal School District Instructional Program Office</i>						
<b>Title I Targeted Assistance and School Wide</b>	N/A	84.010	71,207	0	45,231	0
<b>Total U.S. Department of Education</b>			<b>2,721,431</b>	<b>0</b>	<b>2,939,014</b>	<b>0</b>
<b>Total Federal Financial Assistance</b>			<b>\$3,177,495</b>	<b>\$38,629</b>	<b>\$3,395,078</b>	<b>\$38,629</b>

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FOR THE YEAR ENDED JUNE 30, 2004**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DISTRIBUTION**

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

**NOTE C – NATIONAL SCHOOL LUNCH AND SPECIAL MILK PROGRAMS**

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

**NOTE D – NEGATIVE RECEIPTS**

The Ohio Department of Education (ODE) transferred \$1,493 from grant year 2002 to grant year 2004 in the IDEA Part B Grant and \$208 from grant year 2003 to grant year 2004 in the Title II, Part D – Education Technology Grant. The District returned receipts of \$3,962 from the Eisenhower Professional Development Grant, \$284 from the Title V – Innovative Programs Grant, \$19,157 from the Comprehensive School Reform Demonstration Grant, \$5 from the Class Size Reduction Grant, and \$44 from the Assistive Technology Infusion Grant to ODE because all of the grant funds had not been expended within the allowable time period.

CFDA - Catalog of Federal Domestic Assistance.

N/A – Not applicable



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-002 through 2004-010.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated September 11, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated September 11, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

September 11, 2006



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of the Garfield Heights City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Garfield Heights City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

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

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We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings as items 2004-004 through 2004-010.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated September 11, 2006.

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



**Betty Montgomery**  
Auditor of State

September 11, 2006

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster (10.550, 10.553, 10.555) Title I, Part A (84.010) Special Education Cluster (84.027, 84.173) Safe Schools/Healthy Students (84.184)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2004-001**

**Material Noncompliance Citation - Proper Encumbering**

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

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

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

Ten percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**FINDING NUMBER 2004-001 (Continued)**

**Material Noncompliance Citation - Proper Encumbering (Continued)**

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

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

Officials Response:

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

**FINDING NUMBER 2004-002**

**Reportable Condition - Bank Reconciliations**

Timely recognition of cash receipts and disbursements is vital in ascertaining the cash financial position of any entity. Cash balances include cash in bank accounts and other imprest accounts. Cash is an asset that is very susceptible to embezzlement and is considered a high risk asset because of its liquidity and its desirability. In order for the cash to be properly monitored and accounted for, most entities perform a monthly reconciliation. This reconciliation verifies the cash balance reported in the general ledger agrees to the adjusted balance per the bank statement and it is also used to determine whether all cash receipts and disbursements have been properly recorded.

The District did not perform complete and accurate monthly reconciliations during the entire audit period. While reviewing the monthly reconciliations, we noted that almost every month had an unreconciled variance ranging from \$.41 up to \$6,067. The unreconciled variance was written-off as an adjustment at the end of each month. Sometimes the book balance was greater than the bank balance and other times the bank balance was greater than the book balance. The net effect of the written-off, unreconciled variances amounted to a \$10,547 bank over book balance.

Failure to reconcile the bank accounts timely compromises the internal controls designed to aid in the detection of errors and/or irregularities in a timely manner and during the normal course of business. When performed, the reconciliations identified varying bank over/under book fluctuations each month. This resulted in an inefficient process when determining what the sources of the errors were and when they occurred.

In addition, since the District's monthly bank reconciliations are prepared by a Finance Department staff person other than the Treasurer, the completed reconciliations should be given to the Treasurer to review and sign indicating his agreement that the reconciliations are complete and accurate. Without the review of the Treasurer, the possibility of errors made in the reconciliation may not be detected in a timely manner.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**FINDING NUMBER 2004-002 (Continued)**

We recommend the Finance Department perform accurate and timely monthly bank reconciliations. When there is a variance between the bank and book balance, the variance should be investigated and identified. To write-off unreconciled variances in order to get the bank balance to agree with the book balance is not a proper reconciliation or a proof of cash. Furthermore, the Treasurer should sign all monthly bank reconciliations indicating his review and approval. The reconciliations should include an outstanding check list, properly identified deposits-in-transit, properly supported reconciling adjustments and all calculations should be footed for accuracy.

Officials Response:

Procedures have been implemented that all monthly unreconciled balances are investigated and resolved within a timely manner. In addition, all monthly bank reconciliations are now being signed off on by the Treasurer.

**FINDING NUMBER 2004-003**

**Reportable Condition - District Reimbursements**

We noted a District employee who charges the entire costs of field trips to her personal credit cards. She submits the credit card bills and other supporting documentation to the purchasing department for reimbursement.

Per review of the credit card statements, we noticed the cards are either a Capital One – MilesOne Rewards or an American Express Rewards Gold Card. Per inquiry of the purchasing department and the Treasurer, it has not been determined if the employee receives points that can be converted in to airline flights, cash, merchandise, etc. Total amount reimbursed for expenditures on one of the credit cards during fiscal year 2004 was \$44,429.95 and during fiscal year 2005 was \$34,862.92.

We recommend the District establish formal policies regarding the reimbursement of expenditures. The policy should include procedures for reimbursements in which the employee could receive personal benefit from using a particular credit card.

Officials Response:

The District has established formal policies regarding the reimbursement of expenditures. The practice of using credit cards with bonuses will be monitored closely and a policy will be established on their use.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2004-004
<b>CFDA Title and Number</b>	Special Education Cluster – 84.027 and 84.173
<b>Federal Award Number / Year</b>	2002, 2003, 2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Individualized Education Programs and Service Plans - Reportable Condition**

Individualized Education Programs (IEPs) and Service Plans contain two sections: Consent Section and Parent Notice of Procedural Safeguards Section. These two sections should be completed/signed-off by the parent/guardian. The Consent Section authorizes the District to initiate special education and related services specified in the IEP/Service Plan. The Parent Notice of Procedural Safeguards Section acknowledges that the parent/guardian received a description of the laws and regulations affecting the provision of special education and are aware of their roles and responsibilities in the development of an appropriate educational program.

During our testing we noted 19 instances out of 60 in which the Parental Notice of Procedural Safeguards Section was not completed/signed-off by the parent/guardian. We also noted 1 instance out of 3 in which the Consent Section, for an initial IEP, was not completed/signed-off by the parent. This could lead to special education services being provided to students without the consent of the parent/guardian. Special education services could be provided to students without the parent/guardian understanding the laws and regulations affecting the provision of special education and an awareness of their roles and responsibilities in the development of an appropriate educational program.

We recommend the Special Education Coordinator or appropriate designee review all IEPs and Service Plans to ensure they are properly completed in accordance with grant regulations and contain all necessary signatures/approvals.

Officials Response:

Procedures have been established whereas the special education supervisor reviews all IEP's and service plans to ensure their accuracy.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>Finding Number</b>	2004-005
<b>CFDA Title and Number</b>	Title I, Part A and Title I Targeted Assistance and School Wide – 84.010
<b>Federal Award Number / Year</b>	2003 and 2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Title I Building Allocations - Reportable Condition**

Section 1113 of Title I contains the requirements for identifying eligible school attendance areas and selecting those eligible areas that will participate in Title I, Part A. It also contains the following requirements for allocating Part A funds to participating areas:

- An LEA must allocate Title I Part A funds to participating school attendance areas or schools, in rank order, on the basis of the total number of children from low-income families in each area or school. An LEA with an enrollment of less than 1,000 students or with only one school per grade span is not required to allocate funds to areas or schools in rank order.
- An LEA serving only areas or schools at or above 35 percent poverty must allocate funds in rank order, on the basis of the total number of low-income children in each area or school but is not required to allocate 125 percent of the LEA's allocation per low-income child. However, in determining what per-child amount to allocate, the LEA should bear in mind the purpose of such funding, which is to enable children who are most at risk to meet the State's challenging student performance standards.
- An LEA is not required to allocate the same per-child amount to each area or school. However, the LEA must allocate a higher per-child amount to areas or schools with higher poverty rates than it allocates to areas or schools with lower poverty rates.

Per review of the School Allocation Worksheet on the District's CCIP, we noted the allocation was properly determined. However, we were not able to obtain the worksheets used to determine whether these allocations were properly distributed among the schools. Additionally because payroll postings were not consistently assigned operational unit/building codes, we were unable to determine if the minimum allocations were expended per building.

We recommend the CCIP Coordinator organize all Title I expenditures by school to monitor whether they are in compliance with minimum allocation requirements.

Officials Response:

A record keeping system has been established that tracks Title I expenditures by school.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>Finding Number</b>	2004-006
<b>CFDA Title and Number</b>	Nutrition Cluster – 10.550, 10.553, 10.555
<b>Federal Award Number / Year</b>	2003 and 2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Site Claim Forms - Reportable Condition**

At a minimum, a site claim form must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must be of types authorized by the school food authority (SFA), institution, or sponsor's administering agency; must be served to eligible children; and must be supported by accurate meal counts and records indicating the number of meals served by category and type (7CFR sections 210.7(c), 210.8(c), and 225.9(d)).

Eligibility information from the Site Claim Forms (number of free and reduced applicants) for the month of May 2004 was inconsistent with the final list of free and reduced applicants obtained from the cafeterias; also there were inconsistencies for the two schools for which the number of free and reduced was identifiable for the month of December 2003. The following discrepancies were noted:

School	Final List	Claim Form	Site Claim Overstated (Understated)
May 2004			
Will-Foster			
Free	218	215	(3)
Reduced	<u>39</u>	<u>54</u>	<u>15</u>
	257	269	12
Elmwood			
Free	150	158	8
Reduced	<u>62</u>	<u>61</u>	<u>(1)</u>
	212	219	7
Maple Leaf			
Free	211	185	(26)
Reduced	<u>60</u>	<u>61</u>	<u>1</u>
	271	246	(25)
Middle School			
Free	314	297	(17)
Reduced	<u>132</u>	<u>128</u>	<u>(4)</u>
	446	425	(21)

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>Finding Number</b>	2004-006
<b>CFDA Title and Number</b>	Nutrition Cluster – 10.550, 10.553, 10.555
<b>Federal Award Number / Year</b>	2003 and 2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

(Continued)

**Site Claim Forms - Reportable Condition (Continued)**

School	Final List	Claim Form	Site Claim Overstated (Understated)
High School			
Free	324	208	(116)
Reduced	<u>121</u>	<u>83</u>	<u>(38)</u>
	445	291	(154)
December 2003			
Will Foster			
Free	202	208	6
Reduced	<u>35</u>	<u>52</u>	<u>17</u>
	237	260	23
Maple Leaf			
Free	195	176	(19)
Reduced	<u>58</u>	<u>61</u>	<u>3</u>
	253	237	(16)

We also noted the numbers reported by the EMIS Coordinator for free/reduced applicants did not coordinate with the numbers reported by the Coordinator of Food Service and the numbers reported on the Site Claim Forms.

We recommend the District coordinate the list of eligible students for free and reduced meals, so that all departments are consistent and are reporting the correct numbers to ODE and to other programs that required the total number of free and reduced applicants for the District.

Officials Response:

The District will work on establishing procedures that would eliminate discrepancies between the different records.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>Finding Number</b>	2004-007
<b>CFDA Title and Number</b>	Nutrition Cluster – 10.550, 10.553, 10.555
<b>Federal Award Number / Year</b>	2003 and 2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Food Service Allowable Costs - Reportable Condition**

The food service program is for administration of the school's breakfast and lunch program and is supported by federal funds. OMB cost principles circular A-87 prescribes the cost accounting policies associated with the administration of Federal awards by local governments. Also, circular A-87 describes selected cost items as well as allowable and unallowable costs.

Our testing of non-payroll food service expenditures resulted in 12 errors out of 52 tested, or 23%, that did not follow the requirements of OMB circular A-87. All errors were due to the Coordinator of Food Service making questionable expenditures, which included the purchase of food items not served in District cafeterias. Many of the questionable items were purchased in family size quantities and not in quantities that would be sufficient for cafeteria operations. These items were purchased using the District's Gordon Foods membership, which provided for tax exemption, and paid by the District. Other questionable expenditures made by the Coordinator of Food Service included items for concession stands, personal items, and supplies ordered from a non-existing vendor created by the Coordinator of Food Service.

The Coordinator of Food Service resigned in March 2004 and has repaid a portion of the questionable expenditures. The Coordinator of Food Service has been convicted and ordered to pay restitution to the District for unallowable expenditures.

We recommend the District closely monitor the expenditures of the food service and Nutrition Cluster programs and ensure the expenditures meet the requirements prescribed by the grant.

Officials Response:

All expenditures of the food service and Nutrition Cluster program are closely reviewed and approved by the Director of Business Services to ensure that they meet grant requirements.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>Finding Number</b>	2004-008
<b>CFDA Title and Number</b>	Nutrition Cluster – 10.550, 10.553, 10.555
<b>Federal Award Number / Year</b>	2003 and 2004
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Free and Reduced Price Applications - Reportable Condition**

To qualify a child for meals/milk served free or at reduced price under the program(s), the child's family must annually submit an application to the School Food Authority (SFA). The application must be approved and maintained on file. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by the Food and Nutrition Service.

By December 15<sup>th</sup> of each school year, a SFA must verify the information presented on a sample of the approved applications on a State of Ohio Department of Education Verification Summary Report. The verification sample size is based on the number of approved applications on file on October 1<sup>st</sup>. The SFA may select the sample by either (1) random sampling (the lesser of 3,000 approved applications or 3 percent of total approved applications on file, all randomly selected), or (2) focused sampling (the lesser of one percent or 1,000 of the total number of approved applications selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals; and the lesser of .5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program or TANF case number).

According to the verification summary report obtained from the Ohio Department of Education, there were 1,349 eligible free and reduced applications filed. 40 applications should have been verified (3% of 1,349). The report was not updated or signed by the Coordinator of Food Services indicating the applications were verified.

We noted 35 free and reduced applications with a check mark, which is the District's indication that they were verified for eligibility. Of the 35 applications only 14 had documentation supporting income. We noted none of the applications reviewed had the verification portion of the Free and Reduced Price School Meals Applications completed.

We recommend the District verify the approved applications is accordance with the grant requirements and maintain the supporting documentation used in the verification process.

Officials Response:

Procedures are now established to ensure that applications are in accordance with grant requirements and that all applications have proper supporting documentation attached.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>Finding Number</b>	2004-009
<b>CFDA Title and Number</b>	Special Education Cluster – 84.027 and 84.173
<b>Federal Award Number / Year</b>	2003 and 2004
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Private School Title VI-B Spending - Reportable Condition**

34 CFR 300.453 (a) states that each School District must spend a proportionate amount of its Title VI-B subgrant to provide special education and related services to private school children with disabilities.

We noted the amounts allocated to the five non-public schools (\$57,322) within the School District were not supported by underlying records. As a result, we were unable to recalculate how individual allocations were calculated.

We recommend the District maintain all underlying records that support the calculation for the amount of Title VI-B money provided to private schools.

Officials Response:

Procedures will be established to ensure that supporting documentation for the calculation of Title VI-B money provided to private schools is documented and maintained for reference.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

<b>Finding Number</b>	2004-010
<b>CFDA Title and Number</b>	Title I, Part A and Title I Targeted Assistance and School Wide – 84.010; Nutrition Cluster – 10.550, 10.553, 10.555
<b>Federal Award Number / Year</b>	2003 and 2004
<b>Federal Agency</b>	U.S. Department of Education, U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Federal Program Equipment and Real Property Management - Reportable Condition**

The Ohio Department of Education has adopted the general requirements of the agency codification of A-102 Common Rule and has imposed those requirements on its subrecipients:

- Equipment should be used in the program which acquired it or, when appropriate, other Federal programs.
- Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.
- When equipment with a current per unit fair market value in excess of \$5,000 is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return. Additionally, ODE requires that the proceeds be used to support the original program from which the purchase was made.

We noted no physical inventory was taken. Additionally, a separate listing of assets purchased with federal funds was not maintained for equipment purchased this year or in prior years.

We recommend the District maintain a listing of assets purchased with federal funds and perform an inventory of these assets once every two years.

Officials Response:

The District is currently working on establishing and maintaining an inventory of all district capital assets on a timely basis.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2003-001	Food Service Finding For Recovery – Inventory	Yes	
2003-002	Food Service Finding For Recovery – Public Monies Illegally Expended	Yes	
2003-003	Food Service Finding For Recovery – Expenditures for Personal Use	Yes	Repeated as Finding 2004-007 (Finding for recovery fully addressed in FY 2003)
2003-004	ORC 5705.10 - Negative Cash Balances	No	Comment moved to the Management Letter.
2003-005	ORC 5705.41(B) – Expenditures Exceeded Appropriations	No	Comment moved to the Management Letter.
2003-006	ORC 5705.41(D)(1) – Proper Encumbering	No	Repeated as Finding 2004-001
2003-007	ORC 102.03(D) – Food Service Coordinator Kickbacks	Yes	
2003-008	Removal of School Assets from School Property	Yes	
2003-009	Procedures for ordering items from out of state	Yes	
2003-010	Food Service Preparation	Yes	
2003-011	Monitoring the Purchasing Cycle	Yes	
2003-012	Timely bank reconciliations	No	Repeated as Finding 2004-002
2003-013	Budgetary Reporting	Yes	
2003-014	Payroll Approval	Yes	
2003-015	Back dating checks	Yes	
2003-016	Nutrition Cluster Questioned Cost – Discarded Inventory	Yes	
2003-017	Nutrition Cluster Questioned Cost – Diverting Federal Funds for Personal Gain	Yes	
2003-018	Nutrition Cluster risks arising from vendor inadequacy	Yes	
2003-019	Nutrition Cluster monitoring purchases	No	Repeated as Finding 2004-007
2003-020	Nutrition Cluster improper purchases	No	Repeated as Finding 2004-007
2003-021	Nutrition Cluster concession operations	No	Repeated as Finding 2004-007





**Mary Taylor, CPA**  
Auditor of State

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

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**JANUARY 18, 2007**