



Dave Yost • Auditor of State

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

	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget Basis (Non-GAAP) and Actual – General Fund	19
Statement of Assets and Liabilities – Agency Fund	20
Notes to the Basic Financial Statements	21
Federal Awards Receipts and Expenditures Schedule.....	51
Notes to the Federal Awards Receipts and Expenditures Schedule	52
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by Accordance With OMB Circular A-133.....	55
Schedule of Findings.....	57



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2010, 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, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2011, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 18, 2011

Garfield Heights City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

The discussion and analysis of the Garfield Heights City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- The Ohio School Facilities Commission has earmarked \$18 million for reimbursement of expenses the School District incurs for major renovations at Elmwood Elementary and Maple Leaf Intermediate School. Elmwood Elementary will be wired for state-of-the-art technology and air conditioning units. Maple Leaf Intermediate will get an addition for a new gymnasium and new classrooms. These upgrades will make the School District a cleaner, safer and more technologically advanced learning place for our students.
- During fiscal year 2010, the Board of Education continued to offer an early retirement incentive program which was available to certified and classified employees. Retiring employees will receive the incentive over three years. This program helps the School District reduce personnel expenditures without having to lay off younger staff members.
- The School District has made huge strides to reconcile the leveling off, and in some cases even decline in its revenue stream. The School District has made severe cuts across the board, including eliminating thirteen teaching positions, six supplemental jobs, five administrative positions, and seven classified jobs. The School District also negotiated a salary freeze with the teachers's union. Another way the School District has increased revenue, is to implement a pay-to-play policy with athletics and other extracurricular activities. These cost cutting measures and revenue enhancements are part of the School District's continued commitment to fiscal responsibility.

Using this Financial Report

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

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

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general and classroom facilities capital projects funds.

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

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

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for the fiscal year 2010 compared to fiscal year 2009:

Table 1
 Net Assets
 Governmental Activities

	2010	2009	Change
Assets			
Current and Other Assets	\$47,490,781	\$28,839,549	\$18,651,232
Capital Assets, Net	<u>50,162,946</u>	<u>51,635,323</u>	<u>(1,472,377)</u>
<i>Total Assets</i>	<u>97,653,727</u>	<u>80,474,872</u>	<u>17,178,855</u>
Liabilities			
Current Liabilities	17,953,723	18,113,790	(160,067)
Long-Term Liabilities			
Due Within One Year	2,573,535	2,323,456	250,079
Due In More Than One Year	<u>55,468,307</u>	<u>56,689,064</u>	<u>(1,220,757)</u>
<i>Total Liabilities</i>	<u>75,995,565</u>	<u>77,126,310</u>	<u>(1,130,745)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	(1,482,394)	962,877	(2,445,271)
Restricted for:			
Set Asides	0	918,752	(918,752)
Capital Projects	21,035,694	3,874,752	17,160,942
Debt Service	2,017,113	1,898,230	118,883
Other Purposes	1,068,242	505,149	563,093
Unrestricted	<u>(980,493)</u>	<u>(4,811,198)</u>	<u>3,830,705</u>
<i>Total Net Assets</i>	<u>\$21,658,162</u>	<u>\$3,348,562</u>	<u>\$18,309,600</u>

By comparing assets and liabilities, one can see the overall position of the School District has improved as evidenced by the increase in net assets. This is primarily due to the money to be received from OSFC for building improvements, which does not impact the money available for operations. Management continues to diligently plan expenses, staying carefully within the School District's revenues in an effort to maintain the durations between its levy requests.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net assets for the fiscal years 2010 and 2009.

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 2
Governmental Activities

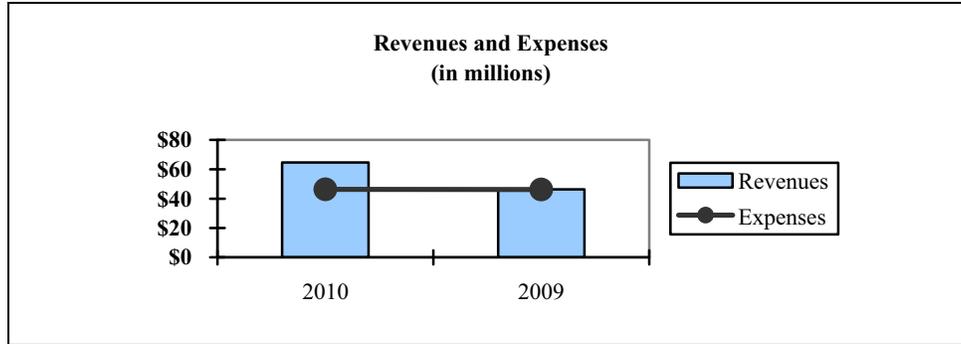
	2010	2009	Change
Program Revenues			
Charges for Services and Sales	\$995,192	\$1,024,059	(\$28,867)
Operating Grants and Contributions	6,801,369	5,130,223	1,671,146
Capital Grants	143,345	0	143,345
<i>Total Program Revenues</i>	<u>7,939,906</u>	<u>6,154,282</u>	<u>1,785,624</u>
General Revenues			
Property Taxes	17,693,180	18,416,147	(722,967)
Grants and Entitlements	38,126,388	21,340,773	16,785,615
Payment in Lieu of Taxes	667,558	0	667,558
Investment Earnings	124,465	249,948	(125,483)
Miscellaneous	97,452	148,999	(51,547)
<i>Total General Revenues</i>	<u>56,709,043</u>	<u>40,155,867</u>	<u>16,553,176</u>
<i>Total Revenues</i>	<u>64,648,949</u>	<u>46,310,149</u>	<u>18,338,800</u>
Program Expenses			
Instruction:			
Regular	17,926,867	17,962,978	36,111
Special	4,531,619	4,681,469	149,850
Vocational	449,054	430,479	(18,575)
Student Intervention Services	2,261,897	914,708	(1,347,189)
Support Services			
Pupils	2,936,780	3,307,966	371,186
Instructional Staff	2,492,879	2,928,469	435,590
Board of Education	98,672	108,585	9,913
Administration	3,051,333	2,633,869	(417,464)
Fiscal	1,076,896	975,766	(101,130)
Business	860,053	820,162	(39,891)
Operation and Maintenance of Plant	3,782,429	4,180,465	398,036
Pupil Transportation	1,022,779	970,179	(52,600)
Central	314,114	391,616	77,502
Operation of Non-Instructional Services	1,224,491	1,348,706	124,215
Operation of Food Service	1,366,004	1,424,034	58,030
Extracurricular Activities	416,490	552,114	135,624
Interest and Fiscal Charges	2,526,992	2,535,715	8,723
<i>Total Program Expenses</i>	<u>46,339,349</u>	<u>46,167,280</u>	<u>(172,069)</u>
<i>Increase in Net Assets</i>	18,309,600	142,869	18,166,731
Net Assets Beginning of Year	<u>3,348,562</u>	<u>3,205,693</u>	<u>142,869</u>
Net Assets End of Year	<u>\$21,658,162</u>	<u>\$3,348,562</u>	<u>\$18,309,600</u>

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Graph 1

Revenues and Expenses
(In Millions)

	2010	2009
Revenues	\$64.6	\$46.3
Expenses	46.3	46.2



Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property tax revenue went down due to more foreclosures and delinquencies in fiscal year 2010.

Overall, instructional expenses stayed in line with the previous fiscal year due to a salary freeze. The decrease in pupils and instructional staff spending is due to a change in reporting structure, which now requires some expenditures to be reported as student intervention services. The increase in administrative spending is due to the reclassification of salaries from support services to administration based on a change in job position. The decrease in operation and maintenance of plant is due to the elimination of non-vital positions and a reduction in supplies spending.

The School District actively pursues grants and controls expenses while still maintaining the high academic standards the residents expect of the School District. Revenue from grants increased significantly in fiscal year 2010, primarily due to “stimulus” funding from the Federal government and Ohio School Facilities Commission monies for renovations and remodeling of school buildings. The stimulus funding, however, is only a two-year source of revenue.

Garfield Heights City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

Parents continue to have the opportunity to pay for the student's lunch online. Each student uses his/her personal identification number, that accesses his/her account, when visiting the cafeteria. The School District also allows parents to pay for work book fees and extracurricular activities online.

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

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

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2010		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$17,926,867	\$15,592,515	\$17,962,978	\$17,198,917
Special	4,531,619	3,157,446	4,681,469	3,224,888
Vocational	449,054	439,761	430,479	430,479
Student Intervention Services	2,261,897	2,145,495	914,708	644,277
Support Services:				
Pupils	2,936,780	2,257,308	3,307,966	2,883,261
Instructional Staff	2,492,879	2,191,397	2,928,469	2,598,251
Board of Education	98,672	97,419	108,585	108,585
Administration	3,051,333	2,881,621	2,633,869	2,626,164
Fiscal	1,076,896	1,049,607	975,766	975,766
Business	860,053	828,224	820,162	819,934
Operation and Maintenance of Plant	3,782,429	3,591,428	4,180,465	4,178,470
Pupil Transportation	1,022,779	1,011,684	970,179	970,179
Central	314,114	300,731	391,616	379,509
Operation of Non-Instructional Services	1,224,491	313,682	1,348,706	(27,001)
Operation of Food Service	1,366,004	(232,031)	1,424,034	92,730
Extracurricular Activities	416,490	246,164	552,114	372,874
Interest and Fiscal Charges	2,526,992	2,526,992	2,535,715	2,535,715
Total	<u>\$46,339,349</u>	<u>\$38,399,443</u>	<u>\$46,167,280</u>	<u>\$40,012,998</u>

The School District's Funds

Information regarding the School District's major funds begins on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$44,635,569 and expenditures of \$45,872,933. The general fund had a decrease in fund balance mainly due to increases in administrative spending. The classroom facilities capital projects fund had an increase in fund balance due to a transfer from the construction capital projects fund. As one can see from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, intergovernmental monies from State and Federal grants comprise the School District largest revenue source, accounting for over 61 percent of total governmental revenue.

Garfield Heights City School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

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 2010, the School District amended its general fund budget several times. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenses but provide flexibility for program based decision and management.

Due to conservative estimates for property taxes and intergovernmental revenue, the original budget basis revenue amount was much lower than final budget revenues. The School District's final budget basis expenditures were \$361,589 lower than the final estimate. This is due in large part to the School District's continued commitment to provide a quality education while still controlling the costs of that quality education.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal 2010 balances compared to 2009:

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

	2010	2009
Land	\$833,150	\$833,150
Construction in Progress	84,955	0
Land Improvements	579,138	620,371
Buildings and Improvements	47,517,702	48,835,292
Furniture and Equipment	707,266	736,277
Vehicles	440,735	566,219
Textbooks	0	44,014
<i>Total Capital Assets</i>	<u>\$50,162,946</u>	<u>\$51,635,323</u>

The School District made improvements to several school buildings to enhance the safety, security and health of the students. These increases were offset by the annual depreciation. Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2010, this amounted to \$662,149 for each set aside. See Note 10 to the basic financial statements for additional information on the School District's capital assets and Note 21 for additional information regarding required set-asides.

Garfield Heights City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Debt

Table 5 summarizes the bonds outstanding.

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

	2010	2009
2001 School Improvement Bonds	\$5,243,309	\$6,073,857
2004 School Improvement Bonds	8,361,089	8,684,153
2006 Energy Conservation Improvement Bonds	1,651,731	1,769,753
2006 Refunding Bonds	31,473,288	31,427,388
Capital Leases	6,903,902	7,451,556
Total	\$53,633,319	\$55,406,707

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

School District Outlook

The School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the School District for new operating dollars was in November 1992. The School District has been affected by increased property tax delinquencies, changes in the personal property tax structure and commercial business uncertainties. Furthermore, the State of Ohio is facing major deficits which could significantly impact its future funding to school districts. Both of these factors make it increasingly difficult for the School District to meet educational programming needs, rising utility costs, and increased special education services required for our students in the future.

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

Garfield Heights City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

Contacting the School District's Financial Management

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

Basic Financial Statements

Garfield Heights City School District

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,426,161
Cash and Cash Equivalents with Fiscal Agent	4,077,988
Accounts Receivable	5,457
Accrued Interest Receivable	621
Intergovernmental Receivable	18,210,152
Property Taxes Receivable	19,036,788
Payments in Lieu of Taxes Receivable	384,479
Deferred Charges	349,135
Nondepreciable Capital Assets	918,105
Depreciable Capital Assets, Net	<u>49,244,841</u>
<i>Total Assets</i>	<u>97,653,727</u>
Liabilities	
Accounts Payable	101,030
Accrued Wages and Benefits	3,569,210
Intergovernmental Payable	1,364,886
Matured Compensated Absences Payable	356,989
Deferred Revenue	12,474,834
Accrued Interest Payable	86,774
Long-Term Liabilities:	
Due Within One Year	2,573,535
Due In More Than One Year	<u>55,468,307</u>
<i>Total Liabilities</i>	<u>75,995,565</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	(1,482,394)
Restricted for:	
Capital Projects	21,035,694
Debt Service	2,017,113
Food Service	490,189
Scholarships	126,981
Public School Support	76,984
Athletics and Music	52,291
Other Purposes	321,797
Unrestricted (Deficit)	<u>(980,493)</u>
<i>Total Net Assets</i>	<u>\$21,658,162</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$17,926,867	\$171,925	\$2,162,427	\$0	(\$15,592,515)
Special	4,531,619	38,849	1,335,324	0	(3,157,446)
Vocational	449,054	5,645	3,648	0	(439,761)
Student Intervention Services	2,261,897	27,562	88,840	0	(2,145,495)
Support Services:					
Pupils	2,936,780	29,973	649,499	0	(2,257,308)
Instructional Staff	2,492,879	25,908	275,574	0	(2,191,397)
Board of Education	98,672	1,253	0	0	(97,419)
Administration	3,051,333	37,151	132,561	0	(2,881,621)
Fiscal	1,076,896	13,294	13,995	0	(1,049,607)
Business	860,053	10,504	21,325	0	(828,224)
Operation and Maintenance of Plant	3,782,429	46,264	1,392	143,345	(3,591,428)
Pupil Transportation	1,022,779	10,516	579	0	(1,011,684)
Central	314,114	3,957	9,426	0	(300,731)
Operation of Non-Instructional Services	1,224,491	5	910,804	0	(313,682)
Operation of Food Service	1,366,004	414,600	1,183,435	0	232,031
Extracurricular Activities	416,490	157,786	12,540	0	(246,164)
Interest and Fiscal Charges	2,526,992	0	0	0	(2,526,992)
Totals	\$46,339,349	\$995,192	\$6,801,369	\$143,345	(38,399,443)

General Revenues

Property Taxes Levied for:	
General Purposes	14,014,036
Debt Service	3,356,725
Capital Outlay	322,419
Grants and Entitlements not Restricted to Specific Programs	38,126,388
Payment in Lieu of Taxes	667,558
Investment Earnings	124,465
Miscellaneous	97,452
Total General Revenues	56,709,043
Change in Net Assets	18,309,600
<i>Net Assets Beginning of Year</i>	3,348,562
<i>Net Assets End of Year</i>	\$21,658,162

See accompanying notes to the basic financial statements

Garfield Heights City School District

Balance Sheet

Governmental Funds

June 30, 2010

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,346,875	\$58	\$3,079,228	\$5,426,161
Cash and Cash Equivalents With Fiscal Agents	1,810,165	0	2,267,823	4,077,988
Accounts Receivable	4,094	0	1,363	5,457
Accrued Interest Receivable	621	0	0	621
Intergovernmental Receivable	143,655	17,927,755	138,742	18,210,152
Interfund Receivable	393,500	0	0	393,500
Property Taxes Receivable	14,979,685	0	4,057,103	19,036,788
Payments in Lieu of Taxes Receivable	384,479	0	0	384,479
<i>Total Assets</i>	<u>\$20,063,074</u>	<u>\$17,927,813</u>	<u>\$9,544,259</u>	<u>\$47,535,146</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$71,271	\$0	\$29,759	\$101,030
Accrued Wages and Benefits	3,305,937	0	263,273	3,569,210
Interfund Payable	0	0	393,500	393,500
Matured Compensated Absences Payable	344,793	0	12,196	356,989
Intergovernmental Payable	1,203,867	0	161,019	1,364,886
Deferred Revenue	13,033,345	17,927,755	3,510,470	34,471,570
<i>Total Liabilities</i>	<u>17,959,213</u>	<u>17,927,755</u>	<u>4,370,217</u>	<u>40,257,185</u>
Fund Balances				
Reserved for Encumbrances	358,696	1,555,702	408,016	2,322,414
Reserved for Property Taxes	2,133,795	0	580,999	2,714,794
Reserved for Budget Stabilization	500,000	0	0	500,000
Unreserved, Undesignated, Reported in:				
General Fund (Deficit)	(888,630)	0	0	(888,630)
Special Revenue Funds	0	0	356,388	356,388
Debt Service Fund	0	0	992,628	992,628
Capital Projects Funds (Deficit)	0	(1,555,644)	2,836,011	1,280,367
<i>Total Fund Balances</i>	<u>2,103,861</u>	<u>58</u>	<u>5,174,042</u>	<u>7,277,961</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$20,063,074</u>	<u>\$17,927,813</u>	<u>\$9,544,259</u>	<u>\$47,535,146</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2010*

Total Governmental Fund Balances \$7,277,961

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. 50,162,946

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Property Taxes	4,034,615
Grants	34,366
Ohio School Facilities Commission	<u>17,927,755</u>

Total 21,996,736

Bond issuance costs will be amortized over the life of the bonds on the statement of net assets. 349,135

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (86,774)

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

General Obligation Bonds	(44,687,266)
Accretion	(1,459,717)
Premium on Bonds	(2,249,744)
Accounting Loss	1,667,310
Compensated Absences	(4,373,523)
Capital Leases	(6,903,902)
Early Retirement Incentive	<u>(35,000)</u>

Total (58,041,842)

Net Assets of Governmental Activities \$21,658,162

See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$12,080,520	\$0	\$3,163,598	\$15,244,118
Intergovernmental	19,569,652	0	7,723,461	27,293,113
Interest	106,509	0	17,956	124,465
Tuition and Fees	566,827	0	0	566,827
Extracurricular Activities	0	0	34,582	34,582
Contributions and Donations	784	0	34,072	34,856
Charges for Services	0	0	534,678	534,678
Rentals	37,920	0	0	37,920
Payment in Lieu of Taxes	667,558	0	0	667,558
Miscellaneous	25,183	0	72,269	97,452
<i>Total Revenues</i>	<u>33,054,953</u>	<u>0</u>	<u>11,580,616</u>	<u>44,635,569</u>
Expenditures				
Current:				
Instruction:				
Regular	13,173,616	0	2,219,766	15,393,382
Special	3,084,444	0	1,379,689	4,464,133
Vocational	430,477	0	3,683	434,160
Student Intervention Services	2,156,313	0	0	2,156,313
Support Services:				
Pupils	2,428,544	0	552,347	2,980,891
Instructional Staff	2,040,293	0	437,626	2,477,919
Board of Education	98,672	0	0	98,672
Administration	2,805,256	0	105,709	2,910,965
Fiscal	1,018,383	0	28,694	1,047,077
Business	851,753	0	28,864	880,617
Operation and Maintenance of Plant	3,611,992	0	125,816	3,737,808
Pupil Transportation	825,805	0	784	826,589
Central	314,756	959,942	1,813	1,276,511
Operation of Non-Instructional Services	397	0	1,181,294	1,181,691
Operation of Food Service	0	0	1,302,235	1,302,235
Extracurricular Activities	293,576	0	151,107	444,683
Capital Outlay	432	0	67,070	67,502
Debt Service:				
Principal Retirement	404,772	0	1,687,882	2,092,654
Interest and Fiscal Charges	46,499	0	2,052,632	2,099,131
<i>Total Expenditures</i>	<u>33,585,980</u>	<u>959,942</u>	<u>11,327,011</u>	<u>45,872,933</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(531,027)</u>	<u>(959,942)</u>	<u>253,605</u>	<u>(1,237,364)</u>
Other Financing Sources (Uses)				
Transfers In	57,184	960,000	166	1,017,350
Transfers Out	(166)	0	(1,017,184)	(1,017,350)
<i>Total Other Financing Sources (Uses)</i>	<u>57,018</u>	<u>960,000</u>	<u>(1,017,018)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(474,009)</u>	<u>58</u>	<u>(763,413)</u>	<u>(1,237,364)</u>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>2,577,870</u>	<u>0</u>	<u>5,937,455</u>	<u>8,515,325</u>
<i>Fund Balances End of Year</i>	<u>\$2,103,861</u>	<u>\$58</u>	<u>\$5,174,042</u>	<u>\$7,277,961</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010*

Net Change in Fund Balances - Total Governmental Funds (\$1,237,364)

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

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

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

Capital Asset Additions		
Capital Outlay	171,055	
Current Year Depreciation	<u>(1,643,432)</u>	
Total		(1,472,377)

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

Property Taxes	2,449,062	
Tuition and Fees	(178,815)	
Ohio School Facilities Commission	17,927,755	
Grants	<u>(184,622)</u>	
Total		20,013,380

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,092,654

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

Accrued Interest	(86,774)	
Amortization of Premium	131,705	
Amortization of Accounting Loss	(98,077)	
Accretion	(352,894)	
Amortization of Issuance Costs	<u>(21,821)</u>	
Total		(427,861)

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

Compensated Absences	(814,375)	
Vacation Benefits Payable	143,878	
Early Retirement Incentive	<u>11,665</u>	
Total		<u>(658,832)</u>

Change in Net Assets of Governmental Activities \$18,309,600

See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$12,027,509	\$12,875,000	\$12,649,143	(\$225,857)
Intergovernmental	18,471,319	19,120,000	19,425,997	305,997
Interest	55,197	250,000	58,050	(191,950)
Tuition and Fees	539,560	528,000	567,447	39,447
Rentals	32,909	30,000	34,610	4,610
Payment in Lieu of Taxes	447,410	340,000	470,534	130,534
Miscellaneous	23,992	80,213	25,232	(54,981)
<i>Total Revenues</i>	<u>31,597,896</u>	<u>33,223,213</u>	<u>33,231,013</u>	<u>7,800</u>
Expenditures				
Current:				
Instruction:				
Regular	13,485,887	13,388,549	13,249,714	138,835
Special	3,337,006	3,353,310	3,353,310	0
Vocational	448,165	448,468	438,801	9,667
Student Intervention Services	2,189,675	2,191,160	2,141,688	49,472
Support Services:				
Pupils	2,537,699	2,539,419	2,492,658	46,761
Instructional Staff	2,146,424	2,147,880	2,125,713	22,167
Board of Education	99,043	99,388	99,388	0
Administration	2,869,768	2,871,713	2,816,537	55,176
Fiscal	1,056,980	1,050,683	1,035,962	14,721
Business	906,863	909,540	909,540	0
Operation and Maintenance of Plant	3,719,695	3,777,531	3,777,531	0
Pupil Transportation	816,085	861,842	861,842	0
Central	326,970	323,791	323,791	0
Operation of Non-Instructional Services	406	406	397	9
Extracurricular Activities	304,945	305,152	297,996	7,156
Capital Outlay	461,793	462,106	451,271	10,835
Debt Service:				
Principal Retirement	289,408	289,604	282,814	6,790
<i>Total Expenditures</i>	<u>34,996,812</u>	<u>35,020,542</u>	<u>34,658,953</u>	<u>361,589</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,398,916)</u>	<u>(1,797,329)</u>	<u>(1,427,940)</u>	<u>369,389</u>
Other Financing Sources (Uses)				
Advances In	670,353	705,000	705,000	0
Advances Out	(397,558)	(397,828)	(388,500)	9,328
Transfers In	54,374	4,092	57,184	53,092
Transfers Out	(170)	(170)	(166)	4
<i>Total Other Financing Sources (Uses)</i>	<u>326,999</u>	<u>311,094</u>	<u>373,518</u>	<u>62,424</u>
<i>Net Change in Fund Balance</i>	(3,071,917)	(1,486,235)	(1,054,422)	431,813
<i>Fund Balance Beginning of Year</i>	1,685,286	1,685,286	1,685,286	0
Prior Year Encumbrances Appropriated	762,590	762,590	762,590	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$624,041)</u>	<u>\$961,641</u>	<u>\$1,393,454</u>	<u>\$431,813</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$114,095</u>
Liabilities	
Due to Students	\$47,766
Undistributed Monies	<u>66,329</u>
<i>Total Liabilities</i>	<u>\$114,095</u>

See accompanying notes to the basic financial statements

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 1 - Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and Federal agencies. The Board of Education employs 206 classified employees, 259 certificated full and part-time teaching, tutor and nursing personnel, and 16 administrators who provide services to 4,260 students and other community members.

Reporting Entity

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

Non-public Schools - Within the School District boundaries, there are various non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

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

The School District is associated with three jointly governed organizations, one insurance purchasing pool and one shared risk pool. These organizations include the Lake-Shore Northeast Ohio Computer Association, Cuyahoga Valley Career Center, Ohio Schools' Council, Ohio School Boards Association Workers' Compensation Group Rating Program and Suburban Health Consortium. These organizations are presented in Notes 14 and 15 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. However, the School District has only governmental activities; therefore, no business-type activities are presented.

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

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

Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The School District has no proprietary funds.

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

General Fund The general fund is the operating fund of the School District and is used to account 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.

Classroom Facilities Fund This capital projects fund accounts for financial resources to be used for the renovation and remodeling of classroom facilities.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

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

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

Measurement Focus

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

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

Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Cash and Cash Equivalents

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

During fiscal year 2010, investments were limited to U.S. Treasury capital, federal home loan bank notes, federal national mortgage association notes, federal farm credit bureau bonds, federal home loan mortgage corporation notes and STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2010.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$106,509, which includes \$52,069 assigned from other School District funds.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

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

Capital Assets

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

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

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

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

Interfund Balances

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

Compensated Absences

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

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.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

Internal Activity

Transfers between governmental activities are eliminated on the government wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

Net Assets

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

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

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Operating Revenues and Expenses

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

Bond Issuance Costs

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

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

Bond Premiums and Discounts

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

Extraordinary and Special Items

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

Estimates

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

Budgetary Data

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

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

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

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance

Changes in Accounting Principles

For fiscal year 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, “Accounting and Reporting for Intangible Assets”, Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District’s financial statements.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Restatement of Fund Balance

During fiscal year 2010, it was determined that the health insurance internal service fund should be allocated to the funds paying health insurance premiums, as the School District is not self-insured. The following table summarizes the effect this adjustment had on fund balance:

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2009	\$2,025,776	\$0	\$5,899,817	\$7,925,593
Adjustment for Fund Reclassification	552,094	0	37,638	589,732
Restated Fund Balance at June 30, 2009	<u>\$2,577,870</u>	<u>\$0</u>	<u>\$5,937,455</u>	<u>\$8,515,325</u>

Note 4 - Accountability and Compliance

Accountability

Fund balances at June 30, 2010, included the following individual fund deficits:

Special Revenue Funds

Public Preschool	\$31,377
School Net Professional Development	1,041
Alternative Schools	656
Federal Stimulus	10,587
Technology II-D Grant	776
Title I School Improvement	103,937
Title I Subsidy	24,500
Title I	145,057
Drug Free Schools	147,531
Preschool Grant	16,724
Class Size Reduction	86,807

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

Compliance

Contrary to Section 5705.39, Ohio Revised Code, the following fund had original appropriations in excess of estimated revenues and carryover balances:

Fund	Estimated Revenue Plus Carryover Balances	Original Appropriations	Excess
<i>Major Fund:</i> General Fund	\$34,007,909	\$34,631,950	\$624,041

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 5 - Budgetary Basis of Accounting

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

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

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

Net Change in Fund Balance	
General Fund	
	<u>General</u>
GAAP Basis	(\$474,009)
Net Adjustment for Revenue Accruals	170,131
Advances In	705,000
Beginning Fair Value Adjustment for Investme	6,854
Ending Fair Value Adjustment for Investments	(925)
Net Adjustment for Expenditure Accruals	(672,571)
Advances Out	(388,500)
Encumbrances	<u>(400,402)</u>
Budget Basis	<u><u>(\$1,054,422)</u></u>

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

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

Garfield Heights City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Investments

Investments are reported at fair value. As of June 30, 2010, the School District had the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-2
U.S Treasury Capital	\$1,420,077	\$1,420,077	\$0
Federal Home Loan Bank Notes	740,070	445,070	295,000
Federal National Mortgage Association Notes	343,920	343,920	0
Federal Farm Credit Bureau Bonds	124,961	124,961	0
Federal Home Loan Mortgage Corporation Notes	100,016	0	100,016
STAR Ohio	14,674	14,674	0
Total Investments	\$2,743,718	\$2,348,702	\$395,016

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

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

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2010:

Investment Issuer	Percentage of Investments
U.S. Treasury Capital	51.76%
Federal Home Loan Bank Notes	26.97
Federal National Mortgage Association Notes	12.53

Note 7 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2010 represents

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. 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.

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, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the late settlement of tangible personal property taxes and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2010 was \$2,133,795 in the general fund, \$528,241 in the bond retirement fund and \$52,758 in the permanent improvements capital projects fund. The amount available as an advance at June 30, 2009 was \$2,702,418 in the general fund, \$636,355 in the bond retirement fund and \$65,208 in the permanent improvements capital projects fund.

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

Garfield Heights City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$458,632,370	94.60%	\$427,404,400	96.49%
Public Utility Personal	7,957,150	1.64	8,393,690	1.89
General Business Personal	18,231,991	3.76	7,163,110	1.62
Total	<u>\$484,821,511</u>	<u>100.00%</u>	<u>\$442,961,200</u>	<u>100.00%</u>
Full Tax Rate per \$1,000 of assessed valuation	\$56.50		\$56.50	

Note 8 - Receivables

Receivables at June 30, 2010, consisted of taxes, payments in lieu of taxes, Ohio School Facilities Commission grant, accounts (contributions and other), tuition and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except for delinquent property taxes and the Ohio School Facilities Commission grant, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Ohio School Facilities Commission	\$17,927,755
State Employees Retirement System	143,655
Title VI-B	102,009
School Improvement Subsidy	18,461
Alternative Schools Grant	9,742
Title I	5,079
Technology II-D Grant	3,451
Total	<u>\$18,210,152</u>

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 9 - Interfund Transfers and Balances

Interfund Transfers

Transfers made during the fiscal year ended June 30, 2010 were as follows:

Transfers To	Transfers From				Total
	General	Disadvantaged Pupils	Poverty Based Assistance	Building	
Major Funds:					
General Fund	\$0	\$12,742	\$44,442	\$0	\$57,184
Classroom Facilities	0	0	0	960,000	960,000
Other Governmental Funds:					
Fitness Center	166	0	0	0	166
Total Transfers	\$166	\$12,742	\$44,442	\$960,000	\$1,017,350

The transfer from the building fund to the classroom facilities capital projects fund was made to meet support expenditures for renovations and remodeling throughout the School District. The transfers in to the general fund were made to close out programs that are no longer being used. The remaining transfer was made to move unrestricted balances to support programs and projects accounted for in another fund.

Interfund Balances

Advances made during the fiscal year ended June 30, 2010 were as follows:

Funds:	Advances Out	Advances In
General Fund	\$393,500	\$0
Other Governmental Funds:		
Public Preschool	0	17,200
SchoolNet, Professional Development	0	1,050
Alternative Schools	0	200
Federal Stimulus	0	10,100
Technology II-D Grant	0	4,250
Title I - School Improvement	0	104,000
Title I - Subsidy	0	24,500
Title I	0	5,000
Preschool	0	147,600
Drug Free Schools	0	10,600
Classroom Size Reduction	0	69,000
Total Advances	\$393,500	\$393,500

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

Garfield Heights City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital Assets, not being depreciated				
Land	\$833,150	\$0	\$0	\$833,150
Construction in Progress	0	84,955	0	84,955
<i>Total Capital Assets, not being depreciated</i>	<u>833,150</u>	<u>84,955</u>	<u>0</u>	<u>918,105</u>
Capital Assets, being depreciated				
Land Improvements	1,195,728	0	0	1,195,728
Buildings and Improvements	57,355,824	0	0	57,355,824
Furniture and Fixtures	2,454,967	86,100	(20,299)	2,520,768
Vehicles	1,686,924	0	0	1,686,924
Textbooks	2,060,731	0	0	2,060,731
<i>Total Capital Assets, being depreciated</i>	<u>64,754,174</u>	<u>86,100</u>	<u>(20,299)</u>	<u>64,819,975</u>
Less: Accumulated Depreciation				
Land Improvements	(575,357)	(41,233)	0	(616,590)
Buildings and Improvements	(8,520,532)	(1,317,590)	0	(9,838,122)
Furniture and Fixtures	(1,718,690)	(115,111)	20,299	(1,813,502)
Vehicles	(1,120,705)	(125,484)	0	(1,246,189)
Textbooks	(2,016,717)	(44,014)	0	(2,060,731)
<i>Total Accumulated Depreciation</i>	<u>(13,952,001)</u>	<u>(1,643,432) *</u>	<u>20,299</u>	<u>(15,575,134)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>50,802,173</u>	<u>(1,557,332)</u>	<u>0</u>	<u>49,244,841</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$51,635,323</u>	<u>(\$1,472,377)</u>	<u>\$0</u>	<u>\$50,162,946</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$1,450,047
Special	1,019
Support Services	
Instructional Staff	5,594
Business	2,320
Operation and Maintenance of Plant	6,370
Pupil Transportation	127,323
Operation of Food Service	38,139
Extracurricular Activities	12,620
Total Depreciation Expense	<u>\$1,643,432</u>

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 11 – Capital Leases

Equipment Lease

In prior years, the School District entered into leases for HVAC systems and telephone equipment. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases," and has been recorded on the government-wide statements. The original amounts capitalized for the capital leases and the book value as of June 30, 2010 follows:

	<u>Amounts</u>
Asset:	
Equipment	\$4,969,694
Less: Accumulated depreciation	<u>(3,308,919)</u>
Current Book Value	<u><u>\$1,660,775</u></u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2010.

	<u>Amounts</u>
2011	\$607,307
2012	607,307
2013	156,036
2014	147,724
2015	139,411
2016-2019	<u>487,933</u>
Total Mimimum Lease Payments	2,145,718
Less: Amount representing interest	<u>(241,816)</u>
Present Value of Mimimum Lease Payments	<u><u>\$1,903,902</u></u>

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

Building Leases

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

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

Year Ending June 30	2003 Building Lease		
	Principal	Sinking fund Payments	Total Lease Payment
2011	\$0	\$149,300	\$149,300
2012	0	149,300	\$149,300
2013	0	149,300	\$149,300
2014	0	149,300	\$149,300
2015	0	149,300	\$149,300
2016-2018	3,000,000	0	\$3,000,000
Total	<u>\$3,000,000</u>	<u>\$746,500</u>	<u>\$3,746,500</u>

2004 Building Lease This capital lease obligation recorded on the governmental wide statements relates to the improvement of several buildings in the School District. As part of these agreements, Banc One Leasing Corporation, as lessor, deposited \$2,000,000 into the School District's account in 2004. The School District will be making annual interest and sinking fund payments over a fourteen year period to Banc One Leasing Corporation, its escrow agent, which will pay the annual interest and invest the sinking fund dollars at an interest rate that will generate at least \$281,123 over the lease period, the difference between the sinking payments and the lease principal payment. It is the assumption of the School District that the money in the sinking fund will be invested and earn enough interest to allow the lease to be paid in full in September 2018.

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

	Amounts
2011	\$133,514
2012	133,514
2013	133,514
2014	133,514
2015	133,514
2016-2018	2,283,828
Total Mimimum Lease Payments	2,951,398
Less: Amount representing interest	(951,398)
Present Value of Mimimum Lease Payments	<u>\$2,000,000</u>

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

Fiscal Year Ending June 30	2004 Building Lease			Total Lease Payment
	Serial Bonds Principal	Interest	Sinking Fund Payment	
2011	\$0	\$16,800	\$116,714	\$133,514
2012	0	16,800	116,714	133,514
2013	0	16,800	116,714	133,514
2014	0	16,800	116,714	133,514
2015	0	16,800	116,714	133,514
2016 - 2018	2,000,000	50,400	233,428	2,283,828
Total	<u>\$2,000,000</u>	<u>\$134,400</u>	<u>\$816,998</u>	<u>\$2,951,398</u>

Garfield Heights City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

Note 13 – Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2010 were as follows:

	Principal Outstanding June 30, 2009	Additions	Deductions	Principal Outstanding June 30, 2010	Amount Due in One Year
Governmental Activities					
General Obligation Bonds					
2001 School Improvement Bonds					
Serial Bonds	\$5,260,000	\$0	(\$930,000)	\$4,330,000	\$1,315,000
Capital Appreciation Bonds	342,275	0	0	342,275	0
Accretion	471,582	99,452	0	571,034	0
Total 2001 School Improvement Bonds	6,073,857	99,452	(930,000)	5,243,309	1,315,000
2004 School Improvement Bonds					
Serial Bonds	3,400,000	0	(370,000)	3,030,000	150,000
Term Bonds	4,400,000	0	0	4,400,000	0
Unamortized Premium	154,278	0	(6,882)	147,396	0
Capital Appreciation Bonds	495,000	0	0	495,000	0
Accretion	234,875	53,818	0	288,693	0
Total 2004 School Improvement Bonds	8,684,153	53,818	(376,882)	8,361,089	150,000
2006 Energy Conservation Improvement Bonds					
Serial Bonds	1,735,000	0	(115,000)	1,620,000	120,000
Unamortized Premium	34,753	0	(3,022)	31,731	0
Total 2006 School Improvement Bonds	1,769,753	0	(118,022)	1,651,731	120,000
2006 Refunding Bonds					
Serial Bonds	23,065,000	0	(130,000)	22,935,000	135,000
Capital Appreciation Bonds	1,179,991	0	0	1,179,991	0
Accretion	400,366	199,624	0	599,990	0
Term Bonds	6,355,000	0	0	6,355,000	0
Unamortized Premium	2,192,418	0	(121,801)	2,070,617	0
Unamortized Refunding Loss	(1,765,387)	0	98,077	(1,667,310)	0
Total 2006 Refunding Bonds	31,427,388	199,624	(153,724)	31,473,288	135,000
Total General Obligation Bonds	47,955,151	352,894	(1,578,628)	46,729,417	1,720,000
Other Long-term Obligations					
Compensated Absences	3,559,148	1,779,574	(965,199)	4,373,523	306,002
Early Retirement Incentive	46,665	0	(11,665)	35,000	11,667
Capital Leases	7,451,556	0	(547,654)	6,903,902	535,866
Total Other Long-term Obligations	11,057,369	1,779,574	(1,524,518)	11,312,425	853,535
Total Governmental Activities					
Long-Term Liabilities	\$59,012,520	\$2,132,468	(\$3,103,146)	\$58,041,842	\$2,573,535

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

2001 School Improvement Bonds

On November 19, 2001, the School District issued \$41,497,275 school improvement bonds for the purpose of converting the existing high school to a middle school and various other renovations throughout the School District. These bonds were partially refunded on October 4, 2006. Interest payments at rates ranging from 3 percent to 5.5 percent are due on June 1 and December 1 of each year, until the principal amount is paid. After the refunding, the bond issue consists of \$6,800,000 of serial bonds and \$342,275 of capital appreciation bonds. The serial bonds were issued for a ten year period with a final maturity of December 15, 2017. The capital appreciation bonds were issued for a nine year period with a final maturity of December 15, 2015. The final amount of the capital appreciation bonds will be \$1,725,000.

2004 School Improvement Bonds

On January 15, 2004, the School District issued \$10,500,000 school improvement bonds for the purpose of improving various buildings throughout the School District. The bonds were issued at a premium of \$192,290. Interest payments at rates ranging from 2 percent to 7.284 percent are due on June 15 and December 15 of each year, until the principal amount is paid. The bond issue consists of \$5,605,000 of serial bonds, \$495,000 of capital appreciation bonds and \$4,400,000 of term bonds. The serial bonds were issued for a six year period with a final maturity date of December 15, 2011. The capital appreciation bonds were issued for an eight year period with a final maturity date of December 15, 2013. The final amount of the capital appreciation bonds will be \$950,000. The term bonds were issued for a twenty year period with a final maturity of December 15, 2026.

2006 Energy Conservation Improvement Bonds

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

2006 Refunding Bonds

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

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

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

The bond issue consists of \$23,805,000 of serial bonds, \$1,179,991 of capital appreciation bonds and \$6,355,000 of term bonds. The serial bonds were issued for a six year period with a final maturity date of December 15, 2024. The capital appreciation bonds were issued for an eight year period with a final maturity date of December 15, 2013. The final amount of the capital appreciation bonds will be \$2,625,000.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

The term bonds were issued for a twenty year period with a final maturity of December 15, 2026.

The overall debt margin of the School District as of June 30, 2010 was \$9,265,996 with an unvoted debt margin of \$435,760. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2010 are as follows:

Fiscal Year Ending June 30	School Improvement Bonds					
	Serial Bonds		Capital Appreciation Bonds		Term Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$1,720,000	\$1,587,569	\$0	\$0	\$0	\$0
2012	1,505,000	1,527,845	0	0	0	0
2013	135,000	1,497,766	900,780	904,220	0	0
2014	140,000	1,491,166	774,211	995,789	0	0
2015	2,180,000	1,473,576	0	0	0	0
2016 - 2020	10,885,000	6,391,429	342,275	1,382,725	750,000	244,748
2021 - 2025	15,350,000	5,126,618	0	0	2,435,000	498,619
2026 - 2030	0	0	0	0	7,570,000	273,816
Total	\$31,915,000	\$19,095,969	\$2,017,266	\$3,282,734	\$10,755,000	\$1,017,183

Fiscal Year Ending June 30	School Improvement Bonds	
	Total	
	Principal	Interest
2011	\$1,720,000	\$1,587,569
2012	1,505,000	1,527,845
2013	1,035,780	2,401,986
2014	914,211	2,486,955
2015	2,180,000	1,473,576
2016 - 2020	11,977,275	8,018,902
2021 - 2025	17,785,000	5,625,237
2026 - 2030	7,570,000	273,816
Total	\$44,687,266	\$23,395,886

Note 14 - Jointly Governed Organizations

Lake-Shore Northeast Ohio Computer Association (LNOCA)

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau that was formed for the purpose of providing data services to the eleven member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software packages used. In fiscal year 2010, the School District paid \$124,795 to LNOCA. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, Ohio 44125.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Cuyahoga Valley Career Center

The Cuyahoga Valley Career Center (a joint vocational school district) is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of representatives from each participating school district's elected board, which possess its own budgeting and taxing authority. Accordingly, the Cuyahoga Valley Career Center is not part of the School District and its operations are not included as part of the reporting entity. The School District made no contributions to the Cuyahoga Valley Career Center during fiscal year 2010. Financial information can be obtained by contacting the Treasurer at the Cuyahoga Valley Career Center, 8001 Brecksville Road, Brecksville, Ohio 44141.

Ohio Schools' Council

The Ohio Schools Council (Council) is a jointly governed organization among 126 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2010, the School District paid \$335,283 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program including the Garfield Heights School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

Note 15 – Public Entity Risk Pools

Insurance Purchasing Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive 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.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Suburban Health Consortium

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

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

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 16 - Risk Management

Workers' Compensation

For fiscal year 2010, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService provides administrative, cost control, and actuarial services to the GRP.

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2010, the School District contracted with Nationwide Insurance Company for building and contents, boiler and machinery, crime insurance, general liability and vehicle insurance. The coverage amounts are:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Building and Contents	\$2,500	\$101,814,362
Crime Insurance	500	50,000
Bodily Injury and Property Damage	0	1,000,000
Uninsured-Underinsured Motorists	0	1,000,000
Inland Marine	250	1,530,221
Comprehensive Automobile Liability	250	2,000,000
Collision Automobile Liability	500	2,000,000
General Liability (per occurrence)	0	1,000,000
General Liability (in aggregate)	0	3,000,000
Errors and Omissions	2,500	1,000,000
Sexual Misconduct	0	1,000,000

Note 17 – Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension and death benefit obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$980,168, \$676,701, and \$653,029, respectively; 42.54 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

State Teachers Retirement System

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$2,177,553, \$2,076,719, and \$2,053,863, respectively; 84.22 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$61,893 made by the School District and \$44,210 made by the plan members.

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2010, all the members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 18 – Postemployment Benefits

School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement Systems for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 1.22 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount, for 2010, this amount was \$35,800. During fiscal year 2010, the School District paid \$88,955 in surcharge.

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

The School District contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$35,280, \$309,689, and \$297,998, respectively; 42.54 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contributions to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$58,289, \$55,833, and \$47,052, respectively; 42.54 percent has been contributed for fiscal year 2010, and 100 percent for fiscal years 2009 and 2008.

State Teachers Retirement System

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$167,504, \$159,748, and \$157,989, respectively; 84.22 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 19 - Other Employee Benefits

Compensated Absences

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

Vacation Leave Classified employees accumulate vacation leave depending upon length of service. Vacation days are credited to classified employees on the anniversary of their employment. Accumulated unused vacation time is paid to classified employees upon termination of employment with some restrictions. Teachers do not earn vacation time.

Sick Leave Each professional staff member is entitled to fifteen (15) days sick leave with pay for each year under contract. The sick leave accrues at the rate of one and one fourth (1 1/4) days for each calendar month under contract. An employee is paid a severance benefit in accordance with negotiated agreement not to exceed 77 days, calculated at current wage rates, upon retirement.

Personal Leave All employees are entitled to three days of personal leave, with pay, each school year. The three days of personal leave cannot be carried forward into the next fiscal year. Unused personal leave rolls over to sick leave in the next fiscal year.

Life Insurance Benefits

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

Health Insurance Benefits

The School District provides employee medical and prescription drug insurance through Medical Mutual of Ohio. Employees contribute \$25 per month, regardless of full time or part-time status. The insurance plans include no deductibles for family or single coverage, with the exception of \$50 for emergency room services.

Retirement Incentive

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

year in which they retire. A bargaining unit member shall be eligible for this incentive to retire when they first meet any one of the following three criteria as defined by State Teachers Retirement System's criteria for retirement eligibility:

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

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

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

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

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

Note 20 - Contingencies

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. 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, 2010.

Litigation

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

Garfield Heights City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

Note 21 - Set Asides

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

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

	<u>Budget Stabilization</u>	<u>Capital Improvements Reserve</u>	<u>Textbooks/ Instructional Materials</u>
Set-Aside Reserve Balance as of June 30, 2009	\$500,000	\$418,752	(\$2,071,303)
Current Year Set-aside Requirement	0	662,149	662,149
Offsets	0	(336,535)	0
Qualifying Disbursements	<u>0</u>	<u>(982,474)</u>	<u>(212,936)</u>
Total	<u>\$500,000</u>	<u>(\$238,108)</u>	<u>(\$1,622,090)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$500,000</u>	<u>\$0</u>	<u>(\$1,622,090)</u>
Set-aside Reserve Balance as of June 30, 2010	<u>\$500,000</u>	<u>\$0</u>	<u>\$0</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 in future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

Note 22 – Subsequent Event

The School District placed a 3.9 mill, five-year emergency operating levy on the November 2, 2010 ballot. The levy failed. This levy was an attempt to generate approximately \$3.9 million each year.

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>					
Nutrition Cluster:					
School Breakfast Program	10.553	\$297,561	\$0	\$297,561	\$0
School Lunch Program	10.555	865,199	37,268	865,199	37,268
Total Nutrition Cluster		<u>1,162,760</u>	<u>37,268</u>	<u>1,162,760</u>	<u>37,268</u>
Total U.S. Department of Agriculture		<u>1,162,760</u>	<u>37,268</u>	<u>1,162,760</u>	<u>37,268</u>
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	1,441,665	0	1,584,772	0
ARRA - Title I Grants to Local Educational Agencies	84.389	345,804	0	350,608	0
Total Title I		<u>1,787,469</u>	<u>0</u>	<u>1,935,380</u>	<u>0</u>
Special Education Cluster:					
Special Education - Grants to States (IDEA, Part B)	84.027	710,737	0	916,147	0
ARRA - Special Education - Grants to States (IDEA, Part B)	84.391	1,039,868	0	645,535	0
Total Special Education - Grants to States (IDEA, Part B)		<u>1,750,605</u>	<u>0</u>	<u>1,561,682</u>	<u>0</u>
Special Education - Preschool Grants	84.173	17,174	0	19,308	0
ARRA - Special Education - Preschool Grants	84.392	33,857	0	41,594	0
Total Special Education - Preschool Grants		<u>51,031</u>	<u>0</u>	<u>60,902</u>	<u>0</u>
Total Special Education Cluster		1,801,636	0	1,622,584	0
Safe and Drug-Free Schools and Communities	84.186	7,269	0	4,730	0
Safe and Drug-Free Schools and Communities - Cleveland Diocese	84.186	120,354	0	273,444	0
Total Safe and Drug-Free Schools and Communities		<u>127,623</u>	<u>0</u>	<u>278,174</u>	<u>0</u>
Innovation Education (Title V)	84.298	3,443	0	3,965	0
Education Technology (Title II, Part D)	84.318	9,328	0	13,124	0
ARRA - Education Technology (Title II, Part D)	84.386	0	0	0	0
Total Education Technology (Title II, Part D)		<u>9,328</u>	<u>0</u>	<u>13,124</u>	<u>0</u>
Improving Teacher Quality (Title II-A)	84.367	183,858	0	166,055	0
Improving Teacher Quality (Title II-A) - Cleveland Diocese	84.367	306,177	0	392,064	0
Total Improving Teacher Quality (Title II-A)		<u>490,035</u>	<u>0</u>	<u>558,119</u>	<u>0</u>
School Improvement Grant	84.377	59,514	0	24,500	0
ARRA - Education for Homeless Children and Youth	84.387	256	0	784	0
ARRA - State Fiscal Stabilization Fund (SFSF)	84.394	1,098,218	0	1,108,299	0
Total U.S. Department of Education		<u>5,377,522</u>	<u>0</u>	<u>5,544,929</u>	<u>0</u>
Total		<u>\$6,540,282</u>	<u>\$37,268</u>	<u>\$6,707,689</u>	<u>\$37,268</u>

The accompanying notes are an integral part of this schedule.

**GARFIELD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

CFDA – Catalog of Federal Domestic Assistance



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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 Garfield City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 18, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 18, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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 Garfield 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 could directly and materially affect each of Garfield City School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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www.auditor.state.oh.us

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

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

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

February 18, 2011

**GARFIELD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: 84.027 & 84.391- Special Education: Grants to States (IDEA, PART B) 84.173 & 84.392- Special Education-Preschool Grants 84.010 &, 84.389- Title I Grants to Local Education Agencies 84.394- State Fiscal Stabilization Fund
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

**GARFIELD CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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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
MAY 5, 2011**