



**Auditor of State  
Betty Montgomery**



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

We have audited the accompanying general-purpose financial statements of the Garfield Heights City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Garfield Heights City School District, Cuyahoga County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types 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 April 28, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

April 28, 2003

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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT**  
**CUYAHOGA COUNTY**  
*Combined Balance Sheet*  
All Fund Types and Account Groups  
June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b><u>Assets and Other Debits</u></b>				
<b><u>Assets</u></b>				
Cash and Cash Equivalents - Unrestricted	\$ 2,242,927	\$ 499,874	\$ 949,361	\$ 25,177,103
Cash and Cash Equivalents - Restricted	184,572	0	0	0
Cash and Cash Equivalents:				
With Fiscal Agents	277,083	0	0	0
Receivables:				
Taxes	15,211,704	0	3,100,742	465,717
Accounts	3,588	32	0	0
Interfund	109,805	0	0	0
Intergovernmental Receivable	0	921,194	0	0
Prepaid Items	3,741	0	0	0
Inventory Held For Resale	0	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
<b><u>Other Debits</u></b>				
Amount Available In Debt Service	0	0	0	0
Amount to be Provided From General Government Resources	0	0	0	0
<i>Total Assets and Other Debits</i>	<u>\$ 18,033,420</u>	<u>\$ 1,421,100</u>	<u>\$ 4,050,103</u>	<u>\$ 25,642,820</u>

**Liabilities, Fund Equity, and Other Credits**

<b><u>Liabilities</u></b>				
Accounts Payable	\$ 165,495	\$ 34,772	\$ 0	\$ 0
Contracts Payable	0	0	0	131,772
Accrued Wages and Benefits	2,015,560	72,241	0	0
Compensated Absences Payable	90,592	0	0	0
Interfund Payable	0	109,805	0	0
Intergovernmental Payable	644,625	21,177	0	0
Deferred Revenue	11,952,867	811,824	2,436,463	365,945
Undistributed Monies	0	0	0	0
Claims Payable	0	0	0	0
Loan Payable	0	0	0	0
School Improvement Bond Payable	0	0	0	0
Energy Conservation Note Payable	0	0	0	2,369,415
<i>Total Liabilities</i>	<u>14,869,139</u>	<u>1,049,819</u>	<u>2,436,463</u>	<u>2,867,132</u>
<b><u>Fund Equity and Other Credits</u></b>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	197,036	219,058	0	6,008,130
Reserved for Tax Revenue Unavailable for Appropriations	3,258,837	0	664,279	99,772
Reserved for Budget Stabilization	125,721	0	0	0
Reserved for Capital Improvements	58,851	0	0	0
Unreserved:				
Undesignated (Deficit)	(476,164)	152,223	949,361	16,667,786
<i>Total Fund Equity (Deficit) and Other Credits</i>	<u>3,164,281</u>	<u>371,281</u>	<u>1,613,640</u>	<u>22,775,688</u>
<i>Total Liabilities, Fund Equity, and Other Credits</i>	<u>\$ 18,033,420</u>	<u>\$ 1,421,100</u>	<u>\$ 4,050,103</u>	<u>\$ 25,642,820</u>

See accompanying notes to the general purpose financial statements



Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$ 181,050	\$ 1,333,313	\$ 29,296	\$ 0	\$ 0	\$ 30,412,924
0	0	0	0	0	184,572
0	0	0	0	0	277,083
0	0	0	0	0	18,778,163
1,157	249	0	0	0	5,026
0	0	0	0	0	109,805
0	0	0	0	0	921,194
0	0	0	0	0	3,741
7,943	0	0	0	0	7,943
22,349	0	0	27,141,584	0	27,163,933
0	0	0	0	1,613,640	1,613,640
0	0	0	0	43,858,353	43,858,353
<u>\$ 212,499</u>	<u>\$ 1,333,562</u>	<u>\$ 29,296</u>	<u>\$ 27,141,584</u>	<u>\$ 45,471,993</u>	<u>\$ 123,336,377</u>

\$ 842	\$ 8,597	\$ 471	\$ 0	\$ 0	\$ 210,177
0	0	0	0	0	131,772
36,388	0	0	0	0	2,124,189
46,470	0	0	0	3,384,210	3,521,272
0	0	0	0	0	109,805
13,965	9	0	0	299,319	979,095
3,908	0	0	0	0	15,571,007
0	0	28,825	0	0	28,825
0	118,953	0	0	0	118,953
0	0	0	0	291,189	291,189
0	0	0	0	41,497,275	41,497,275
0	0	0	0	0	2,369,415
101,573	127,559	29,296	0	45,471,993	66,952,974
0	0	0	27,141,584	0	27,141,584
110,926	1,206,003	0	0	0	1,316,929
0	0	0	0	0	6,424,224
0	0	0	0	0	4,022,888
0	0	0	0	0	125,721
0	0	0	0	0	58,851
0	0	0	0	0	17,293,206
110,926	1,206,003	0	27,141,584	0	56,383,403
<u>\$ 212,499</u>	<u>\$ 1,333,562</u>	<u>\$ 29,296</u>	<u>\$ 27,141,584</u>	<u>\$ 45,471,993</u>	<u>\$ 123,336,377</u>

(continued)

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances*

*All Governmental Fund Types*

*For the Fiscal Year Ended June 30, 2002*

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<b>Revenues</b>			
Taxes	\$ 14,767,586	\$ 0	\$ 2,968,296
Intergovernmental	11,639,964	2,987,121	350,832
Investment Income	2,271,512	7,422	0
Tuition and Fees	234,654	0	0
Extracurricular Activities	0	169,143	0
Miscellaneous	167,186	77,898	0
<i>Total Revenues</i>	<u>29,080,902</u>	<u>3,241,584</u>	<u>3,319,128</u>
<b>Expenditures</b>			
Current:			
Instruction			
Regular	11,341,733	281,671	0
Special	2,556,824	473,899	0
Vocational	170,841	0	0
Other	627,299	0	0
Support Services:			
Pupils	2,140,253	280,231	0
Instructional Staff	757,996	350,177	0
Board of Education	79,513	0	0
Administration	2,334,849	6,554	0
Fiscal	898,655	39,549	0
Business	548,021	0	0
Operation and Maintenance of Plant	3,124,928	0	0
Pupil Transportation	774,138	1,179	0
Central	114,850	665	0
Operation of Non-Instructional Services	0	2,166,758	0
Extracurricular Activities	424,945	327,824	0
Capital Outlay	94,400	0	0
Debt Service:			
Principal Retirement	66,249	0	41,585,000
Interest and Fiscal Charges	17,181	0	1,091,575
<i>Total Expenditures</i>	<u>26,072,675</u>	<u>3,928,507</u>	<u>42,676,575</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	3,008,227	(686,923)	(39,357,447)
<b>Other Financing Sources (Uses)</b>			
Other Financing Sources	0	0	19,289
Proceeds of Bonds	0	0	41,497,275
Operating Transfers In	0	276,841	0
Operating Transfers Out	(534,841)	0	(43,706,620)
<i>Total Other Financing Sources (Uses)</i>	<u>(534,841)</u>	<u>276,841</u>	<u>(2,190,056)</u>
<i>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	2,473,386	(410,082)	(41,547,503)
<i>Fund Balances (Deficit) at Beginning Of Year</i>	694,005	783,692	43,161,143
<i>Decrease in Reserve for Inventory</i>	(3,110)	(2,329)	0
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ 3,164,281</u>	<u>\$ 371,281</u>	<u>\$ 1,613,640</u>

See accompanying notes to the general purpose financial statements

<b>Capital Projects</b>	<b>Totals (Memorandum Only)</b>
\$ 447,364	\$ 18,183,246
74,162	15,052,079
0	2,278,934
0	234,654
0	169,143
0	245,084
521,526	36,163,140

0	11,623,404
0	3,030,723
0	170,841
0	627,299
0	2,420,484
0	1,108,173
0	79,513
19,462	2,360,865
0	938,204
23,048	571,069
630,315	3,755,243
0	775,317
12,314	127,829
0	2,166,758
0	752,769
18,070,016	18,164,416
0	41,651,249
1,721,000	2,829,756
20,476,155	93,153,912

(19,954,629) (56,990,772)

0	19,289
0	41,497,275
43,706,620	43,983,461
0	(44,241,461)
43,706,620	41,258,564

23,751,991 (15,732,208)

(976,303) 43,662,537  
0 (5,439)

\$ 22,775,688 \$ 27,924,890

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual*

All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2002

GENERAL FUND			
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ 13,139,893	\$ 13,003,334	\$ (136,559)
Intergovernmental	11,762,741	11,640,494	(122,247)
Investment Income	2,621,085	2,593,845	(27,240)
Tuition and Fees	248,833	246,247	(2,586)
Extracurricular Activities	0	0	0
Rentals	64,460	63,790	(670)
Miscellaneous	95,048	94,060	(988)
<i>Total Revenues</i>	27,932,060	27,641,770	(290,290)
<b>Expenditures</b>			
Current			
Instruction	14,961,048	14,722,280	238,768
Support Services			
Pupils	2,156,605	2,122,187	34,418
Instructional Staff	774,105	761,751	12,354
Board of Education	79,355	78,089	1,266
Administration	2,352,853	2,315,303	37,550
Fiscal	835,813	822,474	13,339
Business	664,294	653,692	10,602
Operation and Maintenance of Plant	3,235,836	3,184,194	51,642
Pupil Transportation	790,884	778,262	12,622
Central	126,296	124,280	2,016
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	424,945	418,163	6,782
Capital Outlay	0	0	0
Debt Service			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	26,402,034	25,980,675	421,359
<i>Excess of Revenues Over (Under) Expenditures</i>	1,530,026	1,661,095	131,069
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Bonds	0	0	0
Refund of Prior Year Expenditures	3,414	3,379	(35)
Refund of Prior Year Receipts	(102)	(100)	2
Other Financing Sources	0	0	0
Other Financing Uses	(19,607)	(19,294)	313
Advances In	126,313	125,000	(1,313)
Advances Out	(193,900)	(190,805)	3,095
Operating Transfers In	0	0	0
Operating Transfers Out	(543,515)	(534,841)	8,674
<i>Total Other Financing Sources (Uses)</i>	(627,397)	(616,661)	10,736
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	902,629	1,044,434	141,805
<i>Fund Balances Beginning of Year</i>	702,046	702,046	0
Prior Year Encumbrances Appropriated	159,156	159,156	0
<i>Fund Balances End of Year</i>	\$ 1,763,831	\$ 1,905,636	\$ 141,805

See accompanying notes to the general purpose financial statements

SPECIAL REVENUE FUND				DEBT SERVICE FUND			
Revised Budget	Actual	Variance Favorable (Unfavorable)		Revised Budget	Actual	Variance Favorable (Unfavorable)	
\$ 0	\$ 0	\$ 0		\$ 5,100,069	\$ 2,593,924	\$ (2,506,145)	
3,926,023	2,974,058	(951,965)		689,792	350,832	(338,960)	
5,387	8,542	3,155		0	0	0	
0	0	0		0	0	0	
223,242	169,111	(54,131)		0	0	0	
0	0	0		0	0	0	
77,930	65,674	(12,256)		0	0	0	
4,232,582	3,217,385	(1,015,197)		5,789,861	2,944,756	(2,845,105)	
610,950	774,483	(163,533)		0	0	0	
193,558	245,368	(51,810)		0	0	0	
297,974	377,733	(79,759)		0	0	0	
0	0	0		0	0	0	
8,877	11,253	(2,376)		0	0	0	
27,211	34,994	(7,783)		0	0	0	
0	0	0		0	0	0	
0	0	0		0	0	0	
930	1,179	(249)		0	0	0	
5,942	7,533	(1,591)		0	0	0	
1,845,408	2,339,369	(493,961)		0	0	0	
312,532	396,187	(83,655)		0	0	0	
0	0	0		0	0	0	
0	0	0		83,101,162	83,085,000	16,162	
0	0	0		3,298,838	3,298,196	642	
3,303,382	4,188,099	(884,717)		86,400,000	86,383,196	16,804	
929,200	(970,714)	(1,899,914)		(80,610,139)	(83,438,440)	(2,828,301)	
0	0	0		81,590,280	41,497,275	(40,093,005)	
14,913	11,297	(3,616)		0	0	0	
(9,296)	(11,784)	(2,488)		0	0	0	
23,376	17,708	(5,668)		37,925	19,289	(18,636)	
0	0	0		0	0	0	
195,116	147,805	(47,311)		0	0	0	
(64,686)	(82,000)	(17,314)		0	0	0	
365,455	276,841	(88,614)		0	0	0	
0	0	0		0	0	0	
524,878	359,867	(165,011)		81,628,205	41,516,564	(40,111,641)	
1,454,078	(610,847)	(2,064,925)		1,018,066	(41,921,876)	(42,939,942)	
321,296	321,296	0		42,871,236	42,871,236	0	
531,803	531,803	0		0	0	0	
\$ 2,307,177	\$ 242,252	\$ (2,064,925)		\$ 43,889,302	\$ 949,360	\$ (42,939,942)	

(continued)

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT**  
**CUYAHOGA COUNTY**  
*Combined Statement of Revenues, Expenditures and*  
*Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual*  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2002

CAPITAL PROJECTS FUND			
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ 6,580,123	\$ 393,447	\$ (6,186,676)
Intergovernmental	966,162	57,770	(908,392)
Investment Income	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Rentals	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	7,546,285	451,217	(7,095,068)
<b>Expenditures</b>			
Current			
Instruction	0	0	0
Support Services			
Pupils	0	0	0
Instructional Staff	550	328	222
Board of Education	0	0	0
Administration	26,943	16,111	10,832
Fiscal	0	0	0
Business	38,543	23,047	15,496
Operation and Maintenance of Plant	1,393,912	833,497	560,415
Pupil Transportation	0	0	0
Central	11,498	6,875	4,623
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	39,981,969	23,907,425	16,074,544
Debt Service			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	41,453,415	24,787,283	16,666,132
<i>Excess of Revenues Over (Under) Expenditures</i>	(33,907,130)	(24,336,066)	9,571,064
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Bonds	39,626,792	2,369,415	(37,257,377)
Refund of Prior Year Expenditures	3,178	190	(2,988)
Refund of Prior Year Receipts	0	0	0
Other Financing Sources	0	0	0
Other Financing Uses	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	39,629,970	2,369,605	(37,260,365)
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	5,722,840	(21,966,461)	(27,689,301)
<i>Fund Balances Beginning of Year</i>	40,705,865	40,705,865	0
Prior Year Encumbrances Appropriated	404,690	404,690	0
<i>Fund Balances End of Year</i>	\$ 46,833,395	\$ 19,144,094	\$ (27,689,301)

See accompanying notes to the general purpose financial statements

TOTALS  
(MEMORANDUM ONLY)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 24,820,085	\$ 15,990,705	\$ (8,829,380)
17,344,718	15,023,154	(2,321,564)
2,626,472	2,602,387	(24,085)
248,833	246,247	(2,586)
223,242	169,111	(54,131)
64,460	63,790	(670)
172,978	159,734	(13,244)
45,500,788	34,255,128	(11,245,660)
15,571,998	15,496,763	75,235
2,350,163	2,367,555	(17,392)
1,072,629	1,139,812	(67,183)
79,355	78,089	1,266
2,388,673	2,342,667	46,006
863,024	857,468	5,556
702,837	676,739	26,098
4,629,748	4,017,691	612,057
791,814	779,441	12,373
143,736	138,688	5,048
1,845,408	2,339,369	(493,961)
737,477	814,350	(76,873)
39,981,969	23,907,425	16,074,544
83,101,162	83,085,000	16,162
3,298,838	3,298,196	642
157,558,831	141,339,253	16,219,578
(112,058,043)	(107,084,125)	4,973,918
121,217,072	43,866,690	(77,350,382)
21,505	14,866	(6,639)
(9,398)	(11,884)	(2,486)
61,301	36,997	(24,304)
(19,607)	(19,294)	313
321,429	272,805	(48,624)
(258,586)	(272,805)	(14,219)
365,455	276,841	(88,614)
(543,515)	(534,841)	8,674
121,155,656	43,629,375	(77,526,281)
9,097,613	(63,454,750)	(72,552,363)
84,600,443	84,600,443	0
1,095,649	1,095,649	0
94,793,705	\$ 22,241,342	\$ (72,552,363)

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

*Combining Statement of Revenues,  
Expenses, and Changes in Retained Earnings  
All Proprietary Fund Types  
For the Fiscal Year Ended June 30, 2002*

	Enterprise	Internal Service	Totals (Memorandum Only)
<b><u>Operating Revenues</u></b>			
Sales	\$ 706,109	\$ 0	\$ 706,109
Charges for Services	0	2,165,658	2,165,658
<i>Total Operating Revenues</i>	<u>706,109</u>	<u>2,165,658</u>	<u>2,871,767</u>
<b><u>Operating Expenses</u></b>			
Salaries	501,707	72	501,779
Fringe Benefits	69,965	2	69,967
Purchased Services	19,717	49,230	68,947
Materials and Supplies	565,942	1,919	567,861
Depreciation	7,341	0	7,341
Maintenance	38,351	0	38,351
Claims	0	1,695,897	1,695,897
Other Operating Expenses	110	8,597	8,707
<i>Total Operating Expenses</i>	<u>1,203,133</u>	<u>1,755,717</u>	<u>2,958,850</u>
<i>Operating Income (Loss)</i>	<u>(497,024)</u>	<u>409,941</u>	<u>(87,083)</u>
<b><u>Non-Operating Revenues (Expenses)</u></b>			
Operating Grants	263,533	0	263,533
Other Non-Operating Revenue	5,836	249	6,085
Interest	86	0	86
<i>Total Non-Operating Revenues (Expenses)</i>	<u>269,455</u>	<u>249</u>	<u>269,704</u>
Income (Loss) Before Operating Transfers	(227,569)	410,190	182,621
Operating Transfers In	<u>198,000</u>	<u>60,000</u>	<u>258,000</u>
<i>Net Income (Loss)</i>	(29,569)	470,190	440,621
<i>Retained Earnings Beginning of Year</i>	<u>140,495</u>	<u>735,813</u>	<u>876,308</u>
<i>Retained Earnings End of Year</i>	<u>\$ 110,926</u>	<u>\$ 1,206,003</u>	<u>\$ 1,316,929</u>

See accompanying notes to the general purpose financial statements



**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

*Combined Statement of Cash Flows*

All Proprietary Fund Types

For the Fiscal Year Ended June 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>			
<b><u>Cash Flows From Operating Activities</u></b>			
Cash Received from Customers	\$ 756,056	\$ 0	\$ 756,056
Cash Received from Quasi-External Transactions with other funds	0	2,083,312	2,083,312
Cash Paid for Goods and Services	(625,701)	0	(625,701)
Cash Paid to Employees	(555,502)	(174)	(555,676)
Cash Paid for Claims	0	(1,743,288)	(1,743,288)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>(425,147)</u>	<u>339,850</u>	<u>(85,297)</u>
<b><u>Cash Flows From Capital &amp; Related Financing Activities</u></b>			
Purchase of Equipment	(27,936)	0	(27,936)
<i>Net Cash Used For Capital &amp; Related Financing Activities</i>	<u>(27,936)</u>	<u>0</u>	<u>(27,936)</u>
<b><u>Cash Flows From Non-Capital Financing Activities</u></b>			
Grants	263,533	0	263,533
Other Non-Operating Revenues	5,836	249	6,085
Operating Transfers-In	198,000	60,000	258,000
<i>Net Cash Provided By Non-Capital Activities</i>	<u>467,369</u>	<u>60,249</u>	<u>527,618</u>
<b><u>Cash Flows From Investing Activities</u></b>			
Interest income	86	0	86
<i>Net Cash Provided By Investing Activities</i>	<u>86</u>	<u>0</u>	<u>86</u>
<i>Net Increase in Cash and Cash Equivalents</i>	14,372	400,099	414,471
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>166,678</u>	<u>933,214</u>	<u>1,099,892</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 181,050</u>	<u>\$ 1,333,313</u>	<u>\$ 1,514,363</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</u></b>			
<i>Operating Income (Loss)</i>	\$ (497,024)	\$ 409,941	\$ (87,083)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>			
Depreciation	7,341	0	7,341
(Increase) decrease in assets:			
Accounts Receivable	199	(249)	(50)
Intergovernmental Receivable	57,240	0	57,240
Inventory	5,245	0	5,245
Prepaid expenses	0	4,383	4,383
Increase (decrease) in liabilities:			
Accounts payable	(596)	7,972	7,376
Accrued wages and benefits	36,388	(100)	36,288
Compensated absences payable	(20,218)	0	(20,218)
Intergovernmental payable	(6,230)	0	(6,230)
Deferred revenue	(7,492)	0	(7,492)
Claims payable	0	(82,097)	(82,097)
<i>Total Adjustments</i>	<u>71,877</u>	<u>(70,091)</u>	<u>1,786</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>\$ (425,147)</u>	<u>\$ 339,850</u>	<u>\$ (85,297)</u>

See accompanying notes to the general purpose financial statements

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**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**

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

Garfield Heights City School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. This Board controls the School District's seven instructional/support facilities by 243 non-certified employees, 241 certified fun time teaching personnel and administrative employees to provide services to 3,557 students and other community members.

***Reporting Entity***

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

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

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

The School District is associated with three jointly governed organizations and one insurance purchasing pool. These organizations include the Lake-Shore Northeast Ohio Computer Association, Ohio Schools Council Association, Cuyahoga Valley Career Center, and Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 15 and 16 to the general purpose financial statements.

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***A. Basis Of Presentation - Fund Accounting***

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary or fiduciary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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.

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

Enterprise Funds - used to account for the School District's activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***A. Basis Of Presentation - Fund Accounting (Continued)***

Internal Service Fund - used for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group - is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds or trust fund.

***B. Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***B. Measurement Focus and Basis of Accounting (Continued)***

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 year-end.

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

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***C. Budgetary Process***

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

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2002.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the fund level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***C. Budgetary Process (Continued)***

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

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

Encumbrances

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

Lapsing of Appropriations

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

***D. Cash and Cash Equivalents***

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

During fiscal year 2002, investments were made in repurchase agreements, certificates of deposit, Federal National Mortgage Association Notes, Federal Farm Credit Bank Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Victory Federal Money Market account, Victory Gradison Government Reserves Money Market account, Commercial Paper, and STAROhio, the State Treasurer's investment pool.

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



**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***D. Cash and Cash Equivalents (Continued)***

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2002.

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 2002 amounted to \$2,271,512.

The School District has segregated bank accounts for monies held separate from the School District's pool. These depository accounts are presented as "cash and cash equivalents in segregated accounts" on the balance sheet.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents.

***E. Restricted Assets***

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set aside by the School District for the creation of a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

***F. Inventory***

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, recreational materials and school supplies held for resale and are expensed when used.

***G. Fixed Assets and Depreciation***

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***G. Fixed Assets and Depreciation (Continued)***

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life that ranges from five to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

***H. Interfund Assets and Liabilities***

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short term interfund loans are classified as "interfund receivables" and "interfund payables."

***I. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. 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. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified, certified and administrative employees after five years of service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year end are generally considered not to have been made with current available financial resources. Loans and bonds are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

***K. Interfund Transactions***

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

***L. Fund Balance Reserves***

The School District reserves those portions of fund equity which are legally segregated for 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, inventory, budget stabilization, and property taxes.

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

***M. Estimates***

The preparation of the 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.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***N. Totals Columns on General Purpose Financial Statements***

Total columns on the general purpose financial statements are captioned "Totals- (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Note 3 - Accountability**

***A. Fund Deficits***

Fund balances at June 30, 2002, included the following individual fund deficits:

Enterprise Funds:	
Food Service	\$ 33,069

The food service enterprise fund concluded fiscal year 2002 with a retained earnings of (\$33,069). The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

***B. Legal Compliance***

Contrary to Ohio Revised Code § 9.833, the District did not hire an actuary to reserve amounts to cover the potential costs of their health care benefits which is a self-insured program. The programs are to secure the services of an actuary to certify that the amounts reserved conform to law, are computed in accordance with accepted loss reserving standards, and are fairly stated in accordance with sound loss reserving principles.

The following accounts had appropriations in excess of total estimated revenue contrary to Ohio Revised Code § 5705.39:

<u>Fund</u>	<u>Total Estimated Revenue</u>	<u>Total Appropriations</u>	<u>Excess</u>
Bond Retirement Fund	\$45,824,933	\$85,516,000	(\$39,691,067)
Construction	43,099,408	46,099,408	(3,000,000)
DPIA	110,000	110,881	(881)
Reduced Class Size	58,186	66,574	(8,388)
Food Service	845,225	924,897	(79,672)

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 3 - Accountability (Continued)**

**B. Legal Compliance (Continued)**

The following accounts had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code § 5705.41(B) and (D):

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures plus Encumbrances</u>	<u>Excess</u>
<b><u>April 30, 2002</u></b>			
Management Information Systems	\$33,761	\$35,159	(\$1,398)
In-Service Professional Development	15,809	23,880	(8,071)
EHA Title	290,000	377,349	(87,349)
FCIA Title	185,482	231,370	(45,888)
Title VI IASA	36,832	46,287	(9,455)
Reducing Class Size	66,574	79,618	(13,044)
Virtual Middle School	25,000	225,000	(200,000)
<b><u>June 30, 2002</u></b>			
District Managed Activities	293,664	307,547	(13,883)
Teacher Development	263,813	267,552	(3,739)
FESA & NDEA	154,820	531,209	(376,389)
FCIA Title	270,000	296,390	(26,390)
EHA Title	0	338,805	(338,805)

In order to eliminate the budgetary violations noted above, appropriations will be monitored more closely.

The District had negative cash balances in the following funds indicating that revenues from other sources were used to pay obligations of these funds contrary to Ohio Revised Code § 5705.10:

<u>Fund</u>	<u>Amount</u>
Title VI	(\$8,519)
Drug Free School Grant	(47,865)

In order to eliminate this budgetary violation, the District will more closely monitor their cash balances.

**Note 4 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Proprietary Fund Types and 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:

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**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 4 - Budgetary Basis of Accounting (Continued)**

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Unrecorded cash, which consists of unrecorded interest, is not reported by the School District the budget basis operating statements, but is reported on the GAAP basis operating statements.
6. Proceeds from principal on short term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).
7. Investments reported at fair value rather than cost.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess (Deficiency) of Revenues Over Expenditures and Other Sources (Uses)  
Reconciliation of Budget Basis to GAAP Basis

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Budget Basis	\$ 1,044,434	\$ (610,847)	\$(41,921,876)	\$(21,966,461)
Adjustments, increase (decrease)				
Revenue accruals	1,310,753	(152,611)	374,373	41,407,324
Expenditures accruals	(99,434)	101,147	0	(1,715,375)
Encumbrances	217,633	252,229	0	6,026,503
GAAP basis, as reported	<u>\$ 2,473,386</u>	<u>\$ (410,082)</u>	<u>\$(41,547,503)</u>	<u>\$ 23,751,991</u>

**Garfield Heights City School District**  
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**Notes to the General Purpose Financial Statements**  
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**(Continued)**

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**Note 5 - Deposits and investments**

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

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

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

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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

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**Notes to the General Purpose Financial Statements**  
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**Note 5 - Deposits and investments (Continued)**

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

At fiscal year end, the carrying amount of the School District's deposits was \$320,565 and the bank balance was \$868,341. Of the bank balance:

\$380,738 was covered by federal depository insurance; and

\$487,603 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution trust department or agent in the School District's name all State statutory requirements for the deposit of money have been followed, non compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Insurance Corporation.

Investments

The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio, the Victory Federal Money Market Fund and the Victory Gradison Government Reserves Money Market Fund are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.



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**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 5 - Deposits and investments (Continued)**

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$ 2,015,103	\$ 2,015,103	\$ 2,015,103
Federal National Mortgage Association Notes	11,411,846	11,411,846	11,411,846
Federal Farm Credit Bank Notes	5,988,190	5,988,190	5,988,190
Federal Home Loan Bank Notes	4,050,119	4,050,119	4,050,119
Federal Home Loan Mortgage Corporation Notes	5,550,513	5,550,513	5,550,513
Commercial Paper	332,813	332,813	332,813
Victory Federal Money Market Fund		884,355	884,355
Victory Gradison Government Reserves Money Market Fund		52,934	52,934
STAROhio		268,141	268,141
<b>Totals</b>	<b>\$ 29,348,584</b>	<b>\$ 30,554,014</b>	<b>\$ 30,554,014</b>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments and the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
<b>GASB Statement 9:</b>	\$ 30,874,579	\$ 0
<b>Investments:</b>		
Repurchase Agreement	(2,015,103)	2,015,103
Victory Federal Money Market Fund	(884,355)	884,355
Victory Gradison Government Reserves Money Market Fund	(52,934)	52,934
Federal National Mortgage Association Notes	(11,411,846)	11,411,846
Federal Farm Credit Bank Notes	(5,988,190)	5,988,190
Federal Home Loan Bank Notes	(4,050,119)	4,050,119
Federal Home Loan Mortgage Corporation Notes	(5,550,513)	5,550,513
Commercial Paper	(332,813)	332,813
STAROhio	(268,141)	268,141
<b>GASB Statement 3</b>	<b>\$ 320,565</b>	<b>\$ 30,554,014</b>

**Note 6 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax 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 year.

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**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 6 - Property Taxes (Continued)**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) is for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value listed as of January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value: public utility real property is assessed at 35% of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2002, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25% of true value.

The assessed values upon which the fiscal year 2002 taxes were calculated are:

Real Property - 2001	
Residential/Agricultural	\$ 295,695,560
Commercial/Agricultural	73,040,480
Public Utilities	12,550
Tangible Personal Property - 2002	
General	35,141,687
Public Utilities	<u>16,388,820</u>
Total valuation	<u><u>\$ 420,279,097</u></u>

The School District passed a \$7.1 mill permanent improvement levy in November 2000. The collection on this levy began in January of fiscal year 2001.

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. This year, the June 2002 tangible personal property tax settlement was not received until July of 2002.

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, 2002, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 6 - Property Taxes (Continued)**

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and, public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2002, was \$4,022,888. \$3,258,837 was available to the general fund, \$664,279 to the bond retirement debt service fund, and \$99,772 was available to the permanent improvement capital projects fund.

**Note 7 - Fixed Assets**

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$ 223,157
Less: Accumulated Depreciation	<u>(200,808)</u>
Net Fixed Assets	<u><u>\$ 22,349</u></u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Land	\$ 1,115,170	\$ 0	\$ 0	\$ 1,115,170
Buildings/Improvements	6,070,829	671,076	0	6,741,905
Furniture and Equipment	4,804,618	446,871	0	5,251,489
Vehicles	1,115,233	0	0	1,115,233
Construction in progress	0	12,917,787	0	12,917,787
Total	<u>\$ 13,105,850</u>	<u>\$ 14,035,734</u>	<u>\$ 0</u>	<u>\$ 27,141,584</u>

**Note 8 - Risk Management**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, the School District contracted with Nationwide Insurance Company for building and contents, boiler and machinery, and crime. General liability is also protected by Nationwide Insurance Company as well as vehicles. Coverages are as follows:

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**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 8 - Risk Management (Continued)**

***A. Property and Liability (Continued)***

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Nationwide Insurance	Building and Contents	\$ 61,280,700
	Boiler and Machinery	18,654,000
	Crime Insurance	5,000
	Bodily Injury and Property Damage	2,000,000
	Uninsured-Underinsured Motorist	2,000,000
	Comprehensive Automobile Liability	2,000,000
	Collision Automobile Liability	2,000,000
	General Liability (per occurrence)	1,000,000

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

***B. Workers' Compensation***

For fiscal year 2002, the School District participated in the Ohio School Board Association's Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

***C. Employee Medical Benefits***

The School District has elected to provide hospitalization, medical, vision, and prescription benefits through a self insurance program. The School District maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, University Compensated Care, reviews and pays all claims which are then reimbursed by the School District. The School District pays into the insurance reserve internal service fund per month. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information.

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**Notes to the General Purpose Financial Statements**  
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**(Continued)**

**Note 8 - Risk Management (Continued)**

**C. Employee Medical Benefits (Continued)**

The claims liability of \$118,953 reported in the internal service fund at June 30, 2002, is based on an estimate provided by the Treasurer and the requirements GASB No. 10 which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 2000, 2001 and 2002 were:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2000	\$ 177,378	\$ 1,583,947	\$ 1,528,900	\$ 232,425
2001	232,425	1,275,451	1,306,826	201,050
2002	201,050	1,695,897	1,777,994	118,953

**Note 9 – Contractual Commitments**

As of June 30, 2002, the School District had the following contractual commitments outstanding for the construction of a new high school and renovations to the middle and elementary schools:

<u>Contractor</u>	<u>Contract</u> <u>Amount</u>	<u>Amount paid</u> <u>as of</u> <u>6/30/2002</u>	<u>Amount</u> <u>Remaining on</u> <u>Contract</u>
C T. Taylor Co.	\$ 1,803,208	\$ 1,684,868	\$ 118,340
Soehnlén Piping	26,000	2,700	23,300
Concrete Technology Inc.	3,617,000	1,526,262	2,090,738
Illes Construction	3,802,500	3,211,511	590,989
Jacco & Associates	3,658,500	2,798,210	860,290
Clyde McHenry	158,215	0	158,215
P. S. I., Inc.	64,280	5,208	59,072
Commercial Siding	224,000	193,839	30,161
Giambrone Masonary	328,927	312,740	16,187
T. H. Martin Duct	636,900	399,503	237,397
P. P. Y. Enterprise	95,303	49,188	46,115
Intec Building System	1,342,005	217,068	1,124,937
R. J. Martins	354,458	39,069	315,389
Harner Plumbing	286,396	73,065	213,331
Total	<u>\$ 16,397,692</u>	<u>\$ 10,513,231</u>	<u>\$ 5,884,461</u>

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**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 10 - Defined Benefit Pension Plans**

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

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$687,953, \$228,757 and \$563,055 respectively; 34.78% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000, \$239,288 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

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

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

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3% of their annual covered salaries. The School District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,202,920, \$1,201,571 and \$1,604,723, respectively; 100% has been contributed for fiscal years 2002, 2001 and 2000.

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 10 - Defined Benefit Pension Plans (Continued)**

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2002 one member of the Board of Education has elected Social Security. The Board's liability is 6.2% of wages paid.

**Note 11 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$569,804 during fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,722,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% the premium. After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54% of covered payroll, a decrease of 1.26% from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the School District, the amount to fund health care benefits, including surcharge, equaled \$425,351 for fiscal 2002.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001, were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

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**Cuyahoga County**  
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**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 12 - Employee Benefits**

***A. Life Insurance***

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

***B. Compensated Absences***

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

*Vacation Leave*

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

*Sick Leave*

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

*Personal Leave*

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

**Note 13 – Short Term Obligations**

The School District's bond anticipation note activity for the fiscal year ended June 30, 2002 was as follows:

	Principal Outstanding 06/30/01	Additions	Deletions	Principal Outstanding 06/30/02
2000 School Improvements 4.76%	\$ 9,950,000	\$ 0	\$ 9,950,000	\$ 0
2000 School Improvements 4.45%	31,550,000	0	31,550,000	0
	<u>\$ 41,500,000</u>	<u>\$ 0</u>	<u>\$ 41,500,000</u>	<u>\$ 0</u>



**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 14 – Long Term Obligations**

Changes in long term obligations of the School District during fiscal year 2002 were as follows:

	Principal Outstanding 6/30/2001	Additions	Deletions	Principal Outstanding 6/30/2002
<b>General Long Term Debt:</b>				
1992 Energy Conversation Bonds, 6.25%	\$ 85,000	\$ 0	\$ 85,000	\$ 0
Intergovernmental Payable	174,182	299,319	174,182	299,319
2000 School Improvement Notes, 3.49%	41,500,000	0	41,500,000	0
2002 School Improvement Bonds, 3.49%	0	41,497,275	0	41,497,275
Loan Payable	348,956	0	66,249	282,707
Arbitrage	49,505	0	49,505	0
Compensated Absences Payable	3,382,150	3,384,210	3,382,150	3,384,210
	<u>3,382,150</u>	<u>3,384,210</u>	<u>3,382,150</u>	<u>3,384,210</u>
 Total General Long Term Obligations	 <u>\$ 45,539,793</u>	 <u>\$ 45,180,804</u>	 <u>\$ 45,257,086</u>	 <u>\$ 45,463,511</u>
 <b>Capital Projects:</b>				
Energy Conversation Bond, 3.11%	<u>\$ 0</u>	<u>\$ 2,369,415</u>	<u>\$ 0</u>	<u>\$ 2,369,415</u>

The energy conservation bonds are paid from the debt service fund. Intergovernmental and compensated absences will be paid from the fund from which the employees' salaries are paid. Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued have been reported in the general long-term obligations account group and will be paid from the debt service fund. The loan will be paid from the general and school net plus capital projects funds.

The School District's overall legal debt margin at June 30, 2002 was \$37,825,119 with an unvoted debt margin of \$420,279 at June 30, 2002. Principal and interest requirements to retire general obligation debt-energy conservation bonds outstanding and the loan payable at June 30, 2002, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		Loan		Total
	Principal	Interest	Principal	Interest	
2003	\$ 1,035,000	\$ 1,987,590	\$ 69,907	\$ 13,522	\$ 3,106,019
2004	960,000	1,956,541	73,768	9,661	2,999,970
2005	265,000	1,927,741	77,842	5,587	2,276,170
2006	340,000	1,919,791	69,672	1,382	2,330,845
2007	415,000	1,908,741	0	0	2,323,741
Thereafter	38,482,275	26,633,249	0	0	65,115,524
Total	<u>\$ 41,497,275</u>	<u>\$ 36,333,653</u>	<u>\$ 291,189</u>	<u>\$ 30,152</u>	<u>\$ 78,152,269</u>

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 15 - Jointly Governed Organizations**

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

The School District is a participant in the Lake-Shore Northeast Ohio Computer Association (LNOCA) which is a computer consortium. LNOCA is an association made up of fourteen participating school districts. The organization was formed for the purpose of applying modem technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. LNOCA is governed by an assembly consisting of the superintendents or other designees of the member school district. The assembly exercises total control over the operation of LNOCA including budgeting, appropriating, contracting, and designating management. All the LNOCA revenues are generated from charges for services and state funding. In fiscal year 2002, \$14,543 was paid to LNOCA for services. To obtain information write to LNOCA, 7800 Wall Street, Valley View, Ohio 44104.

***B. Ohio Schools Council Association***

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the members districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2002, the School District paid \$15,285 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

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

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

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 15 - Jointly Governed Organizations (Continued)**

***B. Ohio Schools Council Association (Continued)***

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

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

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

**Note 16 - Insurance Purchasing Pool**

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

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

**Note 17 – Contingencies**

***A. Grants***

The School District receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

***B. Litigation***

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

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 18 - Segment Information for Enterprise Funds**

The School District maintains two Enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2002.

	Food Services	Uniform Supplies	Total
Operating revenues	\$ 543,110	\$ 162,999	\$ 706,109
Operating Expenses			
Salaries and wages	501,707	0	501,707
Fringe benefits	69,965	0	69,965
Purchased Services	19,717	0	19,717
Materials and supplies	410,762	155,180	565,942
Other	38,461	0	38,461
Depreciation	7,341	0	7,341
Total operating expenses	<u>1,047,953</u>	<u>155,180</u>	<u>1,203,133</u>
Operating income (loss)	(504,843)	7,819	(497,024)
Non-operating revenues, net	269,455	0	269,455
Income (loss) before operating transfers	(235,388)	7,819	(227,569)
Operating transfers in	198,000	0	198,000
Net income (loss)	<u>\$ (37,388)</u>	<u>\$ 7,819</u>	<u>\$ (29,569)</u>
Other information:			
Net working capital	<u>\$ (57,759)</u>	<u>\$ 146,336</u>	<u>\$ 88,577</u>
Fixed assets, net	<u>\$ 22,349</u>	<u>\$ 0</u>	<u>\$ 22,349</u>
Total assets	<u>\$ 65,321</u>	<u>\$ 147,178</u>	<u>\$ 212,499</u>
Total equity	<u>\$ (35,410)</u>	<u>\$ 146,336</u>	<u>\$ 110,926</u>

**Note 19 - Set-Aside Calculations and Fund Reserves**

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 purpose of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

**Note 19 - Set-Aside Calculations and Fund Reserves (Continued)**

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Reserve</u>	<u>Total</u>
Set-Aside Carryover Balances as of June 30, 2001	\$ (277,804)	\$ 0	\$ 125,721	\$ (152,083)
Current Year Requirement	430,845	430,845		861,690
Qualifying Expenditures	<u>(419,175)</u>	<u>(371,994)</u>	<u>0</u>	<u>(791,169)</u>
Total	<u>\$ (266,134)</u>	<u>\$ 58,851</u>	<u>\$ 125,721</u>	<u>\$ (81,562)</u>
Cash Balance Carried Forward FY 2002	<u>\$ 0</u>	<u>\$ 58,851</u>	<u>\$ 125,721</u>	
Amount Restricted for Set-Asides				<u>\$ 184,572</u>
Total Restricted Assets				<u>\$ 184,572</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements of future fiscal years. Although the School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$184,572.

**Note 20 - Interfund Transactions**

At June 30, 2002, the interfund balances consisted of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 109,805	\$ 0
Special Revenue		<u>109,805</u>
Total	<u>\$ 109,805</u>	<u>\$ 109,805</u>

**Garfield Heights City School District**  
**Cuyahoga County**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 2002**  
**(Continued)**

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**Note 21 -Subsequent Event**

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
 FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Non-Cash Disbursements	Non-Cash Disbursements
<b>U. S. Department of Agriculture</b>						
<i>Passed Through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$34,508	\$0	\$39,163
National School Lunch Program	04PU02	10.555	304,030	0	304,030	0
Total U. S. Department of Agriculture			304,030	34,508	304,030	39,163
<b>U. S. Department of Education</b>						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-2002P	84.027	341,711	0	338,805	0
Total Special Education Grants to States			341,711	0	338,805	0
Special Education - Pre-School Grants	PG-S1-2002P	84.173	14,342	0	3,073	0
Total Special Education Cluster			356,053	0	341,878	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-2002	84.281	12,513	0	6,847	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S2-2000	84.281	0	0	122,084	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-2001	84.281	1,112	0	7,317	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S2-2001	84.281	67,144	0	110,304	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S2-2002	84.281	219,166	0	224,587	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-2000	84.281	2,495	0	389	0
Total Eisenhower Professional Development State Grants Title II, Part B			302,430	0	471,528	0
Title I, Part A, ESEA	C2-S1-2001	84.010	0	0	26,593	0
Title I, Part A, ESEA	C1-S1-2002	84.010	158,890	0	133,650	0
Total Title I, Part A, ESEA			158,890	0	160,243	0
Goals 2000 - State and Local Education Systemic Improvement Grants	G2-S2-2001	84.276	0	0	10,397	0
Goals 2000 - State and Local Education Systemic Improvement Grants	G2-S4-2001	84.276	10,875	0	0	0
Goals 2001 - State and Local Education Systemic Improvement Grants	G2-S4-2002	84.276	0	0	11,077	0
Total Goals 2000 - State and Local Education Systemic Grants			10,875	0	21,474	0
Innovative Education Program Strategies	C2-S1-2000	84.298	0	0	13,301	0
Innovative Education Program Strategies	C2-S1-2002	84.298	18,190	0	26,194	0
Innovative Education Program Strategies	C2-S1-1999	84.298	0	0	236	0
Innovative Education Program Strategies	C2-S1-2001	84.298	0	0	3,015	0
Total Innovative Education Program Strategies			18,190	0	42,746	0
Safe and Drug Free Schools	DR-S1-2002	84.186	14,285	0	3,664	0
Safe and Drug Free Schools	DR-S1-2001	84.186	0	0	157	0
Safe and Drug Free Schools - Cleveland Diocese	DR-S2-2001	84.186	30,330	0	39,997	0
Safe and Drug Free Schools - Cleveland Diocese	DR-S2-2002	84.186	308,076	0	367,062	0
Safe and Drug Free Schools	DR-S1-2000	84.186	0	0	17	0
Total Safe and Drug Free Schools			352,691	0	410,897	0
Technology Literacy Challenge Fund	TF51-2001	84.318	150,000	0	150,000	0
Technology Literacy Challenge Fund	TF52-2001	84.318	75,000	0	75,000	0
Technology Literacy Challenge Fund	TF53-2001	84.318	25,000	0	21,753	0
Total Technology Literacy Challenge Fund Grants			250,000	0	246,753	0
Class Size Reduction	CR-S1-2002	84.340	66,388	0	63,752	0
Total Class Size Reduction			66,388	0	63,752	0
Title I, CSD - CRSRD	RF-S1-2001	84.332	137,500	0	68,561	0
Total Title I, CSD - CRSRD			137,500	0	68,561	0
Total U.S. Department of Education			1,653,017	0	1,827,832	0
<i>Passed Through the Cleveland Municipal School District Instructional Program Office</i>						
Title I, Part A, ESEA	N/A	84.010A	19,456	0	19,456	0
Total Federal Awards Receipts and Expenditures			<u>\$1,976,503</u>	<u>\$34,508</u>	<u>\$2,151,318</u>	<u>\$39,163</u>

The accompanying notes are an integral part of the financial statements.

**GARFILED HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FOR THE YEAR ENDED JUNE 30, 2002  
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

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

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

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

CFDA - Catalog of Federal Domestic Assistance





## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Garfield Heights City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 28, 2003.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 28, 2003.

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

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

**Betty Montgomery**  
Auditor of State

April 28, 2003



## Auditor of State Betty Montgomery

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

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

#### Compliance

We have audited the compliance of the Garfield Heights City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

#### Internal Control Over Compliance

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

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 28, 2003.

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

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

**Betty Montgomery**  
Auditor of State

April 28, 2003

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FOR THE YEAR ENDED JUNE 30, 2002  
SCHEDULE OF FINDINGS**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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A-133 §.505

(d)(1)(i)	<b>Type of Financial Statement Opinion</b>	Unqualified
(d)(1)(ii)	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
(d)(1)(ii)	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
(d)(1)(iii)	<b>Was there any reported non-compliance at the financial statement level (GAGAS)?</b>	Yes
(d)(1)(iv)	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
(d)(1)(iv)	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
(d)(1)(v)	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
(d)(1)(vi)	<b>Are there any reportable findings under Sec. .510?</b>	No
(d)(1)(vii)	<b>Major Programs (list)</b>	CFDA # 84.186 Safe and Drug Free Schools 84.318 Technology Literacy Challenge Fund
(d)(1)(viii)	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<b>Low Risk Auditee?</b>	Yes

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 FOR THE YEAR ENDED JUNE 30, 2002  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A -133 § .505**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS          REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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The comments appearing with an asterisk (\*) denotes a comment that was previously brought to management's attention for which corrective action has not been taken.

Finding Number	2002-001
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Ohio Rev. Code § 5705.39, states that total appropriations from each fund should not exceed the total estimated revenue. As of April 30, 2002, the following funds had total appropriations in excess of total estimated revenue:

<u>Fund</u>	<u>Total Estimated Revenue</u>	<u>Total Appropriations</u>	<u>Excess</u>
Bond Retirement Fund	\$45,824,933	\$85,516,000	(\$39,691,067)
Construction	43,099,408	46,099,408	(3,000,000)
DPIA	110,000	110,881	(881)
Reduced Class Size	58,186	66,574	(8,388)
Food Service	845,225	924,897	(79,672)

The District corrected these violations prior to year end.

Finding Number	2002-002
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Ohio Rev. Code § 9.833, requires self-insurance programs providing health care benefits to reserve amounts to cover the potential costs of those health care benefits. The programs are to secure the services of an actuary to certify that the amounts reserved conform to law, are computed in accordance with accepted loss reserving standards, and are fairly stated in accordance with sound loss reserving principles.

The District has a policy of utilizing the required actuary every other year. For the fiscal year ended June 30, 2002, the District did not have an actuary perform the necessary functions.

The District should follow all requirements of Ohio Rev. Code § 9.833.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 FOR THE YEAR ENDED JUNE 30, 2002  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A -133 § .505  
 (Continued)**

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

Finding Number	2002-003
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Ohio Rev. Code § 5705.10, provides that money paid into any fund shall be used for only the purposes for which such fund is established. As of June 30, 2002, the following funds had negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
Title VI	(\$8,519)
Drug Free School Grant	(47,865)

These deficit balances indicate that money from other funds was used to pay expenditures for the above funds contrary to this Section. The deficits are due to the timing of reimbursements from the State.

Finding Number	2002-004*
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Ohio Rev. Code § 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Rev. Code § 5705.41(D), provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be declared void.

As of April 30, 2002 and June 30, 2002, the following fund had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures plus Encumbrances</u>	<u>Excess</u>
<b><u>April 30, 2002</u></b>			
Management Information Systems	\$33,761	\$35,159	(\$1,398)
In-Service Professional Development	15,809	23,880	(8,071)
EHA Title	290,000	377,349	(87,349)
FCIA Title	185,482	231,370	(45,888)
Title VI IASA	36,832	46,287	(9,455)
Reducing Class Size	66,574	79,618	(13,044)
Virtual Middle School	25,000	225,000	(200,000)

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 FOR THE YEAR ENDED JUNE 30, 2002  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A -133 § .505  
 (Continued)**

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

(Continued)

Finding Number	2002-004* (Continued)
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<b><u>June 30, 2002</u></b>			
District Managed Activities	293,664	307,547	(13,883)
Teacher Development	263,813	267,552	(3,739)
FESA & NDEA	154,820	531,209	(376,389)
FCIA Title	270,000	296,390	(26,390)
EHA Title	0	338,805	(338,805)

Finding Number	2002-005*
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The District accumulated retained earnings in its Employee Health Benefits Internal Service Funds which approximates 8 times its average monthly liability under its funding contract and approximates 10 times its recorded IBNR liability at June 30, 2002. Accounting principles generally accepted in the United States of America requires that an Internal Service Fund operate on a cost reimbursement approach (GASB Cod. 1300.104(b)(2)), which implies that the fund breaks even each year or over several years. In approximately 1983, the District established a Self Insurance Fund - Employee Health Benefits/Reserve Fund (Fund 024, S.C.C. 0000) to be used to fund health care premiums for Board of Education employees in accordance with the rules governing Board of Education expenditures for health care provider services. Because of the establishment of this fund, the District appears to be accumulating too much in the Internal Service Fund, whereas the Ohio Rev. Code clearly requires entities to exercise sound and prudent actuarial judgment in deciding what amount to reserve in such fund. Further, the District does not possess an up-to-date policy and procedures manual over its Employee Health Benefits/Reserve Fund. The purpose of a policy and procedures manual is to clarify those policies and procedures developed by the District and to lend some structure to the operational aspects of the District.

Management should establish policies and procedures to govern its Employee Health Benefits Fund(s) and to monitor and/or evaluate the resources (retained earnings) accumulated in the Internal Service Fund(s) and take appropriate action to maintain resources that are adequate to meet the requirements of an Internal Service Fund. The District should spend the excess reserves to pay premiums for Board of Education employees until the reserves are exhausted or are within an amount that the District, using sound and prudent judgment, deems to be a reasonable cushion beyond its actuarial number. Once accomplished, the District can then resume its normal practice of funding the Internal Service Fund in accordance with established policies and procedures, and the requirements of the Ohio Rev. Code.

**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  
JULY 22, 2003**