



**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 financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

March 31, 2005

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

The management's discussion and analysis of the Garfield Heights City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this management's discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ❑ General Revenues accounted for \$27,604,635 in revenue or 86.65% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$4,251,663 or 13.35% of total revenues of \$31,856,298.
- ❑ Total program expenses were \$35,799,344. Instructional expenses made up 42.96% of this total while support services accounted for 41.08%. Other expenses rounded out the remaining 15.96%.
- ❑ In total, net assets of governmental activities decreased \$3,943,046, which represents a 119.11% decrease from 2002.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Debt Service Fund and the Building Fund.

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

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

The proprietary fund financial statements begin on page 18.

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

The fiduciary fund financial statements begin on page 21.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23.

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

	2003	2002
Assets		
Current and Other Assets	\$ 46,102,949	\$ 50,671,156
Capital Assets	39,474,241	17,705,102
Total Assets	85,577,190	68,376,258
Liabilities		
Long-Term Liabilities (Due in More Than One Year)	49,112,807	47,542,089
Other Liabilities	37,096,975	17,523,715
Total Liabilities	86,209,782	65,065,804
Net Assets		
Invested in Capital		
Assets Net of Debt	14,208,139	17,705,102
Restricted	19,690,706	25,859,681
Unrestricted (Deficit)	(34,531,437)	(40,254,329)
Total Net Assets	\$ (632,592)	\$ 3,310,454

Total assets increased by \$17.2 million. This increase reflects additional purchases exceeding depreciation. Total liabilities increased by \$21.1 million with governmental liabilities comprising that entire amount. This increase was the result of bond sales for the district's construction project

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

**Table 2
Statement of Activities**

	Amount
Revenues	
<i>Program Revenues:</i>	
Charges for Services	\$ 1,144,060
Operating Grants	3,107,603
<i>General Revenue:</i>	
Property Taxes	13,359,028
Grants and Entitlements not restricted to specific purpose	13,325,756
Investment Earnings	609,126
Miscellaneous	310,725
<i>Total Revenues</i>	31,856,298
Program Expenses	
Instruction	15,377,688
Support Services	14,706,079
Operation of Non-Instructional Services	1,482,815
Extracurricular Activities	650,946
Interest and Fiscal Charges	2,200,568
Food Service Operations	1,215,768
Uniform School Supplies	165,480
<i>Total Expenses</i>	35,799,344
Change in Net Assets	\$ (3,943,046)

Governmental Activities

Information about the School District's major funds starts on page 13.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. All governmental funds had total revenues of \$31,856,298 and expenditures of \$35,799,344. Comparisons to 2002 have not been made since they are not available.

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

**Table 3
Governmental Activities**

	Total Cost of Service	Net Cost of Service
Instruction	\$ 15,377,688	\$ (14,135,929)
Support Services:		
Pupil and Instructional Staff	4,417,226	(4,043,632)
Board of Education, Administration and Fiscal	4,377,588	(4,243,878)
Operation and Maintenance of Plant	4,668,907	(4,668,907)
Pupil Transportation	985,188	(985,188)
Central	257,170	(254,044)
Operation of Non-Instructional Services	1,482,815	(283,868)
Extracurricular Activities	650,946	(518,781)
Interest and Fiscal Charges	2,200,568	(2,200,568)
Food Services Operations	1,215,768	(201,083)
Uniform School Supplies	165,480	(11,803)
Total Expenses	\$ 35,799,344	\$ (31,547,681)

Instruction and student support services comprise 84.03% of governmental program expenses. Interest/fiscal charges were 6.15%. Interest expense was attributable to the outstanding bonds, and fiscal expenses include payments to the County Auditor(s) for administrative fees. All other expenses account for 9.82% of governmental program expenses.

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

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

General Fund Budgeting Highlights

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

During the course of fiscal year 2003, the School District did not modify its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$26,907,713, under the original budget estimates of \$28,269,695. Of this \$1,361,952, most was attributable to decreased interest earnings (falling from 6% to 2% over the course of the year) and decreased property tax collections due to increased delinquency rates. Both of these reasons can be attributed to a weakened economy.

Final expenditures of \$27,444,759 were \$825,210 lower than the \$28,269,969 in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be lower than anticipated

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$39,474,241 invested in land, buildings, equipment, vehicles, and textbooks. Table 4 shows fiscal year 2003 balances compared with 2002.

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

	<u>2003</u>	<u>2002</u>
Land	\$ 990,700	\$ 990,700
Land Improvements	146,632	151,227
Buildings and Improvements	4,882,614	1,286,220
Furniture and Equipment	1,384,131	533,037
Vehicles	585,357	702,372
Textbooks	984,389	1,123,759
Construction In Progress	<u>30,500,418</u>	<u>12,917,787</u>
Totals	<u>\$ 39,474,241</u>	<u>\$ 17,705,102</u>

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2003, this amounted to \$492,537 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks.

**Garfield Heights City School District
Cuyahoga County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)*

Debt

At June 30, 2003, the School District had \$56,331,690 in bonds and notes outstanding with \$13,978,715 due within one year. Table 5 summarizes bonds outstanding.

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

	Governmental Activities 2003	Governmental Activities 2002
General Obligation Bonds:		
School Improvement Bonds - 2001	\$ 40,462,275	\$ 41,497,275

In 2000, the School District passed a bond issue providing \$41,500,000 for construction of a new high school and renovations of four other school buildings. In 2002, the School District issued a bond anticipation note providing \$10,500,000 to continue the School District's goal of rebuilding the School District in compliance with the Ohio School Facilities Commission.

Current Issues

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

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 41.06% of revenues for governmental activities for the School District in fiscal year 2003.

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

Garfield Heights City School District
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

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

The School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2003. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

Contacting the School District's Financial Management

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

Garfield Heights City School District
Cuyahoga County

Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 26,647,900
Receivables:	
Taxes	19,325,368
Accounts	3,110
Intergovernmental	112,950
Prepaid Items	2,467
Inventory Held For Resale	10,248
Materials and Supplies Inventory	906
Nondepreciable Capital Assets	990,700
Depreciable Capital Assets (Net)	38,483,541
<i>Total Assets</i>	85,577,190
Liabilities	
Accounts Payable	362,231
Contracts Payable	1,833,002
Accrued Wages and Benefits	2,388,777
Intergovernmental Payable	856,824
Deferred Revenue	16,704,882
Claims Payable	34,994
Note Payable	2,369,415
Long Term Liabilities:	
Due Within One Year	12,546,850
Due In More Than One Year	49,112,807
<i>Total Liabilities</i>	86,209,782
Net Assets	
Invested in Capital Assets, Net of Related Debt	14,208,139
Restricted for:	
Capital Projects	7,535,212
Debt Service	11,785,473
Other Purposes	370,021
Unrestricted	(34,531,437)
<i>Total Net Assets</i>	\$ (632,592)

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Statement of Activities
For The Year Ended June 30, 2003*

	Program Revenues			Net (Expense) Revenues
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 12,819,886	\$ 208,327	\$ 303,353	\$ (12,308,206)
Special	1,429,580	0	705,134	(724,446)
Vocational	395,156	0	24,945	(370,211)
Other	733,066	0	0	(733,066)
Support Services:				
Pupils	1,753,272	0	44,574	(1,708,698)
Instructional Staff	2,663,954	0	329,020	(2,334,934)
Board of Education	42,923	0	0	(42,923)
Administration	2,741,464	0	122,261	(2,619,203)
Fiscal	774,075	0	11,449	(762,626)
Business	819,126	0	0	(819,126)
Operation and Maintenance of Plant	4,668,907	0	0	(4,668,907)
Pupil Transportation	985,188	0	0	(985,188)
Central	257,170	3,126	0	(254,044)
Operation of Non-Instructional Services	1,482,815	70,018	1,128,929	(283,868)
Food Service Operations	1,215,768	576,747	437,938	(201,083)
Uniform School Supplies	165,480	153,677	0	(11,803)
Extracurricular Activities	650,946	132,165	0	(518,781)
Debt Service:				
Interest and Fiscal Charges	2,200,568	0	0	(2,200,568)
Totals	\$ 35,799,344	\$ 1,144,060	\$ 3,107,603	(31,547,681)

General Revenues

Property Taxes Levied for:

General Purposes	10,828,828
Debt Service	2,161,997
Capital Improvements	368,203
Grants and Entitlements not Restricted to Specific Programs	13,325,756
Investment Earnings	609,126
Miscellaneous	310,725
Total General Revenues	27,604,635
Change in Net Assets	(3,943,046)
Net Assets at Beginning of Year, Restated	3,310,454
Net Assets at End of Year	<u>\$ (632,592)</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Balance Sheet
Governmental Funds
June 30, 2003*

	General	Debt Service	Building Fund Capital Projects	Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 1,799,866	\$ 11,361,540	\$ 11,369,673	\$ 870,260	\$ 25,401,339
Receivables, Net of Allowance					
Taxes	15,420,553	3,126,388	0	778,427	19,325,368
Accounts	3,000	0	0	110	3,110
Interfund	74,305	0	0	0	74,305
Due From Other Governments	0	0	0	112,950	112,950
Prepaid Expenses	2,467	0	0	0	2,467
Inventory Held For Resale	0	0	0	10,248	10,248
Materials and Supply Inventory	906	0	0	0	906
<i>Total Assets</i>	<u>\$ 17,301,097</u>	<u>\$ 14,487,928</u>	<u>\$ 11,369,673</u>	<u>\$ 1,771,995</u>	<u>\$ 44,930,693</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 156,626	\$ 0	\$ 24,126	\$ 177,816	\$ 358,568
Contracts Payable	0	0	1,833,002	0	1,833,002
Accrued Wages and Benefits	2,322,386	0	0	66,391	2,388,777
Interfund Payable	0	0	0	74,305	74,305
Due To Other Governments	500,348	0	0	18,653	519,001
Deferred Revenue	14,151,836	2,869,166	0	827,332	17,848,334
Energy Conservation Note Payable	0	0	0	2,369,415	2,369,415
<i>Total Liabilities</i>	17,131,196	2,869,166	1,857,128	3,533,912	25,391,402
Fund Balances					
Fund Balance:					
Reserved for Encumbrances	220,683	0	3,619,025	233,142	4,072,850
Reserved for Tax Revenue Unavailable for Appropriation	1,268,717	257,222	0	64,045	1,589,984
Reserved for Budget Stabilization	125,721	0	0	0	125,721
Unreserved:					
Undesignated, Unreserved Reported in:					
General Fund	(1,445,220)	0	0	0	(1,445,220)
Special Revenue Funds	0	0	0	36,783	36,783
Debt Service Fund	0	11,361,540	0	0	11,361,540
Capital Projects Funds	0	0	5,893,520	(2,095,887)	3,797,633
<i>Total Fund Balances</i>	169,901	11,618,762	9,512,545	(1,761,917)	19,539,291
<i>Total Liabilities and Fund Balances</i>	<u>\$ 17,301,097</u>	<u>\$ 14,487,928</u>	<u>\$ 11,369,673</u>	<u>\$ 1,771,995</u>	<u>\$ 44,930,693</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2003*

Total Governmental Fund Balances		\$ 19,539,291
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		39,474,241
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds. These deferrals are attributed to:		
Grants	112,950	
Delinquent Property Taxes	1,030,502	1,143,452
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,207,904
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
General Obligation Bonds/Bond Anticipation Notes	(53,962,275)	
Capital Lease Payable	(3,930,571)	
Compensated Absences - Sick Leave	(3,087,048)	
Compensated Absences - Vacation	(7,883)	
Severance Payable	(671,880)	
Due To Other Governments	(337,823)	(61,997,480)
Net Assets of Governmental Activities		\$ (632,592)

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended June 30, 2003*

	General	Debt Service	Building Fund Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 10,853,917	\$ 2,168,013	\$ 0	\$ 352,637	\$ 13,374,567
Intergovernmental	12,851,065	344,175	0	3,936,994	17,132,234
Investment Income	598,832	0	493	9,801	609,126
Tuition and Fees	208,327	0	0	18,793	227,120
Extracurricular Activities	0	0	0	186,516	186,516
Charges For Services	153,677	0	0	576,747	730,424
Miscellaneous	217,744	0	0	92,981	310,725
<i>Total Revenues</i>	<u>24,883,562</u>	<u>2,512,188</u>	<u>493</u>	<u>5,174,469</u>	<u>32,570,712</u>
Expenditures:					
Current:					
Instruction:					
Regular	12,883,256	0	0	317,410	13,200,666
Special	1,050,025	0	0	727,368	1,777,393
Vocational	324,375	0	0	0	324,375
Other	733,066	0	0	0	733,066
Support Services:					
Pupils	1,751,928	0	0	17,427	1,769,355
Instructional Staff	2,171,151	0	0	386,742	2,557,893
Board of Education	42,923	0	0	0	42,923
Administration	2,302,974	0	31,213	132,419	2,466,606
Fiscal	790,124	0	0	19,927	810,051
Business	830,299	0	0	0	830,299
Operation and Maintenance of Plant	7,218,581	0	0	444,498	7,663,079
Pupil Transportation	864,571	0	0	0	864,571
Central	239,420	0	0	11,300	250,720
Operation of Non-Instructional Services	105	0	0	2,048,177	2,048,282
Food Service Operations	0	0	0	1,193,971	1,193,971
Uniform School Supplies	165,480	0	0	0	165,480
Extracurricular Activities	433,507	0	0	259,327	692,834
Capital Outlay	277,083	0	18,135,797	31,401	18,444,281
Debt Service:					
Principal Retirement	0	3,404,415	0	0	3,404,415
Interest and Fiscal Charges	0	2,045,550	0	0	2,045,550
<i>Total Expenditures</i>	<u>32,078,868</u>	<u>5,449,965</u>	<u>18,167,010</u>	<u>5,589,967</u>	<u>61,285,810</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(7,195,306)	(2,937,777)	(18,166,517)	(415,498)	(28,715,098)
Other Financing Sources (Uses):					
Proceeds of Bonds	0	0	3,000,000	0	3,000,000
Inception of Capital Lease	4,371,506	0	0	0	4,371,506
Proceeds of Notes	0	12,869,415	0	0	12,869,415
Transfers In	0	73,484	0	246,927	320,411
Transfers Out	(316,916)	0	0	(3,495)	(320,411)
<i>Total Financing Sources and (Uses)</i>	<u>4,054,590</u>	<u>12,942,899</u>	<u>3,000,000</u>	<u>243,432</u>	<u>20,240,921</u>
<i>Net Change in Fund Balance</i>	(3,140,716)	10,005,122	(15,166,517)	(172,066)	(8,474,177)
<i>Fund balance (deficit), Beginning of Year, as Restated</i>	<u>3,310,617</u>	<u>1,613,640</u>	<u>24,679,062</u>	<u>(1,589,851)</u>	<u>28,013,468</u>
<i>Fund balance (deficit), End of Year</i>	<u>\$ 169,901</u>	<u>\$ 11,618,762</u>	<u>\$ 9,512,545</u>	<u>\$ (1,761,917)</u>	<u>\$ 19,539,291</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to The Statement of Activities
For The Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds	\$	(8,474,177)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Outlay	22,246,934	
Depreciation Expense	<u>(477,795)</u>	21,769,139
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	(698,874)	
Delinquent Property Taxes	<u>(15,539)</u>	(714,413)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Bond Principal	3,404,415	
Capital Leases	<u>732,124</u>	4,136,539
Some expenses reported in the statement of net activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Capital Leases	(4,371,506)	
Proceeds of Bonds	(3,000,000)	
Proceeds of Notes	(12,869,415)	
Compensated Absences	(382,601)	
Pension Obligation	<u>(38,504)</u>	(20,662,026)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.		
		<u>1,892</u>
	<u>\$</u>	<u>(3,943,046)</u>
Change in Net Assets of Governmental Activities		

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget Basis (Non-GAAP) and Actual - General Fund
For the Year Ended June 30, 2003*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 13,494,161	\$ 13,494,161	\$ 12,844,037	\$ (650,124)
Intergovernmental	13,498,393	13,498,393	12,848,065	(650,328)
Investment Income	825,734	825,734	785,952	(39,782)
Tuition and Fees	218,872	218,872	208,327	(10,545)
Miscellaneous	232,535	232,535	221,332	(11,203)
<i>Total Revenues</i>	<u>28,269,695</u>	<u>28,269,695</u>	<u>26,907,713</u>	<u>(1,361,982)</u>
Expenditures:				
Current				
Instruction	15,438,089	15,438,089	14,987,446	450,643
Support Services				
Pupils	1,788,381	1,788,381	1,736,178	52,203
Instructional Staff	2,169,092	2,169,092	2,105,776	63,316
Board of Education	39,837	39,837	38,674	1,163
Administration	2,326,105	2,326,105	2,258,205	67,900
Fiscal	872,008	872,008	846,554	25,454
Business	855,464	855,464	830,493	24,971
Operation and Maintenance of Plant	3,179,686	3,179,686	3,086,870	92,816
Pupil Transportation	888,048	888,048	862,126	25,922
Central	239,935	239,935	232,931	7,004
Operation of Non-Instructional Services	108	108	105	3
Extracurricular Activities	473,216	473,216	459,401	13,815
<i>Total Expenditures</i>	<u>28,269,969</u>	<u>28,269,969</u>	<u>27,444,759</u>	<u>825,210</u>
Excess of Revenues Over (Under) Expenditures	(274)	(274)	(537,046)	(536,772)
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	228,940	228,940	228,940	0
Advances In	35,500	35,500	35,500	0
Operating Transfers Out	(316,916)	(316,916)	(316,916)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(52,476)</u>	<u>(52,476)</u>	<u>(52,476)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(52,750)</u>	<u>(52,750)</u>	<u>(589,522)</u>	<u>(536,772)</u>
<i>Fund Balance, at Beginning of Year</i>	2,123,269	2,123,269	2,123,269	0
Prior Year Encumbrances	279,681	279,681	279,681	0
<i>Fund Balance, End of Year</i>	<u>\$ 2,350,200</u>	<u>\$ 2,350,200</u>	<u>\$ 1,813,428</u>	<u>\$ (536,772)</u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Statement of Net Assets
Proprietary Funds
June 30, 2003*

	<u>Internal Service Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents:	\$ 1,246,561
Liabilities	
Accounts Payable	3,663
Claims Payable	<u>34,994</u>
<i>Total Liabilities</i>	38,657
Net Assets	
Unrestricted	<u>1,207,904</u>
<i>Total Liabilities and Net Assets</i>	<u><u>\$ 1,246,561</u></u>

See accompanying notes to the basic financial statements.

**Garfield Heights City School District
Cuyahoga County**

*Statement of Revenues, Expenditures and Changes in Net Assets
Proprietary Funds
For The Year Ended June 30, 2003*

	Internal Service Fund
<hr/> <hr/>	
Operating Revenues:	
Charges for services	\$ 97,692
Other operating revenues	2,131,061
	<hr/>
<i>Total Operating Revenues</i>	2,228,753
	<hr/>
Operating Expenses:	
Purchased services	89,387
Materials and supplies	3,090
Cost of goods sold	24,953
Claims	2,109,431
	<hr/>
<i>Total Operating Expenses</i>	2,226,861
	<hr/>
<i>Change in Net Assets</i>	1,892
	<hr/>
<i>Net Assets, Beginning of Year - as Restated</i>	1,206,012
	<hr/>
<i>Net Assets, End of Year</i>	\$ 1,207,904
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2003

	Internal Service Fund
Cash Flows From Operating Activities:	
Cash Received from Quasi-External Transactions with Other Funds	\$ 2,229,011
Cash Paid for Goods and Services	(122,373)
Cash Paid for Claims	(2,193,390)
<i>Net Cash Used For Operating Activities</i>	(86,752)
<i>Net Decrease in Cash and Cash Equivalents</i>	(86,752)
<i>Cash and Cash Equivalents at Beginning of Year</i>	1,333,313
<i>Cash and Cash Equivalents at End of Year</i>	\$ 1,246,561
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income	\$ 1,892
Adjustments:	
(Increase) Decrease Assets	
Accounts Receivable	258
Increase (Decrease) in Liabilities	
Accounts Payable	(4,943)
Claims Payable	(83,959)
<i>Total Adjustments</i>	(88,644)
<i>Net Cash Used For Operating Activities</i>	\$ (86,752)

See accompanying notes to the basic financial statements.

Garfield Heights City School District
Cuyahoga County

Statement of Net Assets - Fiduciary Funds
Fiduciary Funds
June 30, 2003

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 32,643
Receivables: Accounts	<u>467</u>
<i>Total Assets</i>	<u><u>\$ 33,110</u></u>
Liabilities	
Accounts Payable	\$ 2,788
Undistributed Monies	<u>30,322</u>
<i>Total Liabilities</i>	<u><u>\$ 33,110</u></u>

See accompanying notes to the basic financial statements.

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**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Note 1 - Description of the School District and Reporting Entity

Garfield Heights City School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. This Board controls the School District's seven instructional/support facilities by 248 non-certified employees, 245 certified full time teaching personnel and administrative employees to provide services to 3,784 students and other community members.

Reporting Entity

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Governmental Funds

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

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

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

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

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

Proprietary Fund Type

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

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

Fiduciary Funds

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions

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

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2003, investments were made in repurchase agreements, certificates of deposit, Federal National Mortgage Association Notes, Federal Farm Credit Bank Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Victory Federal Money Market account, Victory Gradison Government Reserves Money Market account, Federal Agri Mtg Corp., Commercial Paper, and STAROhio, the State Treasurer's investment pool.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

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

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003. Certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$785,952.

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

F. Inventory

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

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

G. Restricted Assets

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,700. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

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

Description	Governmental Activities Estimated Lives
Buildings and Improvements	10 - 40 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	8 Years
Textbooks	5 Years

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-term Obligations

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

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

L. Net Assets

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

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

M. Fund Balance Reserves

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

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

N. Operating Revenues and Expenses

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

O. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

Q. Estimates

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

R. Budgetary Data

All funds, other than agency funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. Throughout the fiscal year, the primary level of budgetary control was at the object code within function level within the General Fund. For all other funds, the legal level of control was at the fund level. Budgetary modifications may only be made by resolution of the Board of Education.

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board 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 The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Appropriations A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

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

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

Note 3 – Change in Accounting Principle and Restatement of Fund Balances/Net Assets

Changes in Accounting Principles

For fiscal year, 2003, the School District has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Disclosures”, GASB Statement No. 41, “Budgetary Comparison of Schedules – Perspective Differences”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34, which, includes reclassifying; enterprise funds as special revenue funds for reporting purposes and the conversion to the accrual basis of accounting.

Restatement of Prior Year Fund Balance

The restatements for GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Debt Service	Building Fund	Nonmajor	Total
Fund Balances, June 30, 2002	\$ 3,164,281	\$ 1,613,640	\$ 24,679,062	\$(1,532,093)	\$ 27,924,890
Fund Reclassifications	146,336	0	0	(57,758)	88,578
Fund Balances, June 30, 2002	\$ 3,310,617	\$ 1,613,640	\$ 24,679,062	\$(1,589,851)	28,013,468
GASB 34 Adjustments:					
Capital Assets					17,705,102
Intergovernmental Payable					(299,319)
Compensated Absences					(3,384,210)
Internal Service Fund					1,206,003
Long-Term (Deferred) Assets					1,857,865
Long-Term Liabilities					(41,788,455)
Governmental Activities Net Assets, June 30, 2002					\$ 3,310,454

Note 4 – Accountability

A. Fund Deficit

Fund balances/net assets at June 30, 2003 included the following individual fund deficits:

	Deficit Fund Balances
Special Revenue Funds:	
Student Activities	\$ (63,054)
Food Services	(67,237)
Capital Projects Fund:	
Permanent Improvements	(2,036,342)

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

**Garfield Heights City School District
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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

B. Legal Compliance

Ohio Revised Code Section 5705.41 (D) (1) provides that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required to the order or contract 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 encumbrances. During fiscal year 2003, expenditures were made without the prior certification of the fiscal officer.

Ohio Revised Code Section 102.03 (D) states that no public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee to respect to that person's duties. The former coordinator of Food Service used her authority and influence to secure items of value associated with the procurement of goods and services.

Ohio Revised Code Sections 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been appropriated.

As of June 30, 2003, the following funds had expenditures plus encumbrances in excess of appropriations:

Fund/Program/Activity	Appropriations	Expenditures Plus Encumbrances	Excess
<i>Special Revenue Funds:</i>			
School Improvement Fund	\$ 3,903	\$ 4,823	\$ 920
District Managed Student Activity Fund	265,000	270,508	5,508
Auxiliary Service Fund	1,068,000	1,177,467	109,467
Teacher Development Fund	0	7,493	7,493
Student Intervention Fund	2,309	2,813	504
EESA & IDEA Fund	124,568	128,276	3,708
Title I Fund	600,734	604,557	3,823
Innovative Education Program Fund	24,900	32,585	7,685
Drug Free School Grant Fund	398,664	400,352	1,688
IDEA Pre-School Grant for Handicapped Fund	24,000	26,435	2,435
Improving Teacher Quality Fund	397,562	450,537	52,975
Food Services Fund	1,219,550	1,261,888	42,338
<i>Capital Projects Funds:</i>			
Permanent Improvement Fund	518,000	523,410	5,410
Building Fund	22,600,000	25,596,976	2,996,976

The Board of Education is monitoring budgetary controls to avoid future violations of budgetary compliance.

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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Ohio Revised Code Sections 5705.10 requires money paid into a fund shall be used for only the purposes for which such fund is established. The following funds had a deficit fund balance which indicate money from other funds were used to pay expenditures for these funds which is contrary to the above noted Revised Code Section:

September 30th

Special Revenue Funds:

Community Diversion Program Fund	\$ (4,530)
District Managed Student Activity Fund	(3,983)
EESA/NDEA Fund	(69,745)
Special Education Fund	(4,362)
Title I Fund	(1,147)

November 30th

Special Revenue Funds:

Community Diversion Program Fund	(4,102)
District Managed Student Activity Fund	(28,431)
Alternative School Fund	(40,660)
Title I Fund	(18,582)
Food Services Fund	(64,548)

February 28th

Special Revenue Funds:

Health Benefits Reserve Fund	(62,095)
District Managed Student Activity Fund	(85,558)
Special Education Fund	(41,449)
Drug Free School Grant Fund	(93,904)
IDEA Pre-School Grant for Handicapped Fund	(9,192)
Food Services Fund	(75,976)

The District did not report any negative cash balances at year end, June 30, 2003.

The Board of Education is monitoring budgetary controls to avoid future violations of budgetary compliance.

Note 5 - Budgetary Basis of Accounting

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

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

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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

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

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

Net Change In Fund Balance General Fund	
	General
Budget Basis	\$ (589,522)
Adjustments, increase (decrease)	
Revenue accruals	1,890,457
Expenditures accruals	(4,441,651)
GAAP basis, as reported	\$ (3,140,716)

Note 6 - Deposits and investments

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

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

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

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

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

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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

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 daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits at fiscal year end, the carrying amount of the School District's deposits was \$230,178 and the bank balance was \$911,070. Of the bank balance:

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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

1. \$501,841 was covered by federal depository insurance; and
2. \$409,229 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution trust department or agent in the School District's name all State statutory requirements for the deposit of money have been followed, non compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Insurance Corporation.

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

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$ 2,037,124	\$ 2,037,124	\$ 2,037,124
Federal National Mortgage Association Notes	3,001,500	3,001,500	3,001,500
Federal Farm Credit Bank Notes	1,000,000	1,000,000	1,000,000
Federal Home Loan Bank Notes	1,650,704	1,650,704	1,650,704
Federal Home Loan Mortgage Corporation Notes	10,719,234	10,719,234	10,719,234
Federal Agri Mtg Corp	1,806,470	1,806,470	1,806,470
Commercial Paper	2,203,984	2,203,984	2,203,984
Bank One Money Market		3,000,493	3,000,493
Victory Federal Money Market Fund		738,086	738,086
Victory Gradison Government Reserves Money Market Fund		259,229	259,229
STAROhio		33,541	33,541
Totals	<u>\$ 22,419,016</u>	<u>\$ 26,450,365</u>	<u>\$ 26,450,365</u>

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

**Garfield Heights City School District
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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

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

	Cash and Cash Equivalents	Investments
GASB Statement 9:	\$ 26,680,543	\$ 0
Investments:		
Repurchase Agreement	(2,037,124)	2,037,124
Victory Federal Money Market Fund	(738,086)	738,086
Victory Gradison Government Reserves		
Money Market Fund	(259,229)	259,229
Federal National Mortgage Association Notes	(3,001,500)	3,001,500
Federal Farm Credit Bank Notes	(1,000,000)	1,000,000
Federal Home Loan Bank Notes	(1,650,704)	1,650,704
Federal Home Loan Mortgage Corporation Notes	(10,719,234)	10,719,234
Federal Agri Mtg Corp	(1,806,470)	1,806,470
Commercial Paper	(2,203,984)	2,203,984
Bank One Money Market	(3,000,493)	3,000,493
STAROhio	(33,541)	33,541
GASB Statement 3	\$ 230,178	\$ 26,450,365

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) is for calendar 2003 taxes.

2003 real property taxes are levied after April 1, 2003, on the assessed value listed as of January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value: public utility real property is assessed at 35% of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after April 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25% of true value.

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For The Year Ended June 30, 2003**

The assessed values upon which the fiscal year 2003 taxes were calculated are:

Real Property - 2003	
Residential/Agricultural	\$ 295,926,850
Commercial/Agricultural	83,212,710
Public Utilities	11,120
Tangible Personal Property - 2002	
General	32,159,384
Public Utilities	16,409,970
Total valuation	<u>\$ 427,720,034</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 2003 tangible personal property tax settlement was not received until July of 2003.

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, 2003, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and, public utility taxes which became measurable as of June 30, 2003 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, 2003, was \$1,589,984. \$1,268,717 was available to the general fund, \$257,222 to the bond retirement debt service fund, and \$64,045 was available to the permanent improvement capital projects fund.

**Garfield Heights City School District
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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Note 8 - Receivables

Receivables at June 30, 2003, consisted of property taxes, accounts due from other governments, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

Governmental Activities:

Title I	\$ 54,258
Drug Free School Grants	5,041
Reducing Class Size	53,611
Title VI	40
	\$ 112,950

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance 6/30/02	Additions	Reductions	Balance 6/30/03
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 990,700	\$ 0	\$ 0	\$ 990,700
<i>Capital Assets, being depreciated:</i>				
Land Improvements	492,068	0	0	492,068
Buildings and Improvements	6,147,707	3,658,500	0	9,806,207
Furniture and Equipment	1,371,734	1,005,803	0	2,377,537
Vehicles	1,225,750	0	0	1,225,750
Textbooks	1,865,810	0	0	1,865,810
Construction in progress	12,917,787	17,677,031	(94,400)	30,500,418
Total Capital Assets, being depreciated	24,020,856	22,341,334	(94,400)	46,267,790
Less Accumulated Depreciation:				
Land Improvements	(340,841)	(4,595)	0	(345,436)
Buildings and Improvements	(4,861,487)	(62,106)	0	(4,923,593)
Furniture and Equipment	(838,697)	(154,709)	0	(993,406)
Vehicles	(523,378)	(117,015)	0	(640,393)
Textbooks	(742,051)	(139,370)	0	(881,421)
Total Accumulated Depreciation	(7,306,454)	(477,795)	0	(7,784,249)
Total Capital Assets being depreciated, net	16,714,402	21,863,539	(94,400)	38,483,541
Governmental Activities Capital Assets, Net	\$ 17,705,102	\$ 21,863,539	\$ (94,400)	\$ 39,474,241

**Garfield Heights City School District
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**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Depreciation expense was charged to governmental functions as follows:

Governmental Functions:	
Instruction:	
Regular	\$ 225,510
Support Services:	
Administration	27,980
Operation and Maintenance of Plant	100,184
Pupil Transportation	92,328
Food Service	31,793
	\$ 477,795

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. For fiscal year 2003, 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:

Company	Type of Coverage	Coverage
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 2003, the School District participated in the Ohio School Board Association's Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

C. Employee Medical Benefits

The School District has elected to provide medical, vision, dental, and prescription benefits through a self insurance program. The School District maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator, Medical Mutual of Ohio, reviews and pays all claims which are then reimbursed by the School District. The School District pays into the insurance reserve internal service fund on a monthly basis. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The estimated total required claims incurred but not paid reserve in the internal service fund for the medical and prescription drug insurance at June 30, 2003 is \$219,967.

The claims liability in the internal service fund at June 30, 2003, is based on the requirements of GASB Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 2001, 2002 and 2003 were:

	<u>Balance at Beginning of Year</u>	<u>Current Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2001	\$ 232,425	\$ 1,275,451	\$ 1,306,826	\$ 201,050
2002	201,050	1,695,897	1,777,994	118,953
2003	118,953	2,109,431	2,193,390	34,994

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Note 11 – Contractual Commitments

As of June 30, 2003, the Garfield Heights City School District had the following contractual commitments outstanding for the construction of a new high school and renovations to the middle and elementary schools:

Contractor	Contract Amount	Amount paid as of 6/30/2003	Amount Remaining on Contract
United Mechanical Contractors	\$ 1,443,692	\$ 936,580	\$ 507,112
Dunlop & Johnson	1,057,620	39,150	1,018,470
Concrete Technology Inc.	3,695,098	3,534,669	160,429
Dunlop & Johnson	6,173,939	4,287,112	1,886,827
Jacco & Associates	3,658,500	3,478,660	179,840
Clyde McHenry	574,568	419,232	155,336
M. W. Mielke	2,033,453	1,456,503	576,950
Commercial Siding	2,151,284	1,898,773	252,511
BrySCO Foodservice Co.	492,372	84,354	408,018
Edward R. Flynn Co., Inc.	574,018	331,137	242,881
R. J. Martins	1,848,553	1,027,877	820,676
Total	<u>\$ 23,703,097</u>	<u>\$ 17,494,047</u>	<u>\$ 6,209,050</u>

Note 12 - 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 43215-3634 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. 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 contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$732,195, \$687,953, and \$601,407, respectively; 95.6% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001, \$33,933 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3% of their annual covered salaries and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. Contribution rates are established by and may be amended by the STRS board of trustees. The School District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,704,576, \$1,202,920, and \$1,201,571, respectively; 100% has been contributed for fiscal years 2003, 2002 and 2001.

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, 2003 one member of the Board of Education has elected Social Security. The Board's liability is 6.2% of wages paid.

Note 13 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$302,547 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, the health care costs paid by STRS were \$354,687,000 and STRS had 105,300 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.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

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. 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 2003, the minimum pay has been established at \$12,400. For The School District, the amount contributed to fund healthcare benefits, including the surcharge, during the 2003 fiscal year equaled \$476,989.

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, 2002, were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 14 - Employee Benefits

A. Life Insurance

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

B. Compensated Absences

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

Vacation Leave

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

Sick Leave

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

Personal Leave

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Note 15- Long - Term Obligations

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

	Outstanding 6/30/02	Additions	Reductions	Outstanding 6/30/03	Amounts Due in One Year
Governmental Activities:					
<i>Notes Payable:</i>					
Energy Conservation Notes 3.07% - 3.11%	\$ 2,369,415	\$ 2,369,415	\$ 2,369,415	\$ 2,369,415	\$ 2,369,415
Bond Anticipation Note 1.85%, 1/03 - 1/04	0	10,500,000	0	10,500,000	10,500,000
Total Notes Payable	<u>2,369,415</u>	<u>12,869,415</u>	<u>2,369,415</u>	<u>12,869,415</u>	<u>12,869,415</u>
General Obligation Bonds:					
School Improvement Bonds-2001 5.39%, 12/26	41,497,275	0	1,035,000	40,462,275	960,000
Qualified Zone Academy Bonds	0	3,000,000	0	3,000,000	149,300
Total General Obligation Bonds	<u>41,497,275</u>	<u>3,000,000</u>	<u>1,035,000</u>	<u>43,462,275</u>	<u>1,109,300</u>
Compensated Absences	3,521,272	3,766,811	3,521,272	3,766,811	424,769
Capital Leases	291,189	4,371,506	732,124	3,930,571	512,781
Total Governmental Activities Long-Term Liabilities	<u>\$ 47,679,151</u>	<u>\$ 24,007,732</u>	<u>\$ 7,657,811</u>	<u>\$ 64,029,072</u>	<u>\$ 14,916,265</u>

The energy conservation notes are paid from the debt service fund and are fund obligations shown here for presentation purposes but are not long-term obligations of the District. Compensated absences will be paid from the fund from which the employees' salaries are paid. Bond anticipation notes 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 and will be paid from the debt service fund.

The School District's overall legal debt margin at June 30, 2003 was \$7,024,653 with an unvoted debt margin of \$427,720 at June 30, 2003.

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds
2004	\$ 2,902,141
2005	2,188,766
2006	2,254,266
2007	2,316,479
2008	2,600,536
2009 - 2013	13,694,413
2014 - 2018	16,750,965
2019 - 2023	16,600,250
2024	14,522,250
Total Principal and Interest	73,830,066
Less Interest	33,367,791
Total Principal Outstanding	\$ 40,462,275

Note 16- Capitalized Leases

Capital lease obligations relate to a telephone system and air handling equipment which are leased under long-term agreements. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standard No. 13 "Accounting for Leases". Capital lease payments in the governmental funds have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

Year	Amount
2004	\$ 662,700
2005	662,698
2006	626,449
2007	451,267
2008	451,267
2009 - 2013	1,805,068
Total Minimum Lease Payments	4,659,449
Less Amount Representing Interest	728,878
Present Value of Minimum Lease Payments	\$ 3,930,571

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Note 17– Deferred Revenue

Deferred revenue at June 30, 2003 the following:

	Entity Wide Statement	Balance Sheet
Property Taxes Receivable	\$ 16,704,882	\$ 17,735,384
Grants Receivable	0	112,950
	\$ 16,704,882	\$ 17,848,334

Note 18- Interfund Transactions

The account balances by fund of “Interfund Receivable” and “Interfund Payable” as of June 30, 2003 are as follows:

Fund	Receivable	Payable
General Fund	\$ 74,305	\$ 0
Other Governmental Funds	0	74,305
Total	\$ 74,305	\$ 74,305

Interfund receivables and payables resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2003, all interfund payables outstanding are anticipated to be repaid in fiscal year 2004.

The following is a summarized breakdown of the District’s operating transfers for fiscal year 2003:

Fund	Transfers In	Transfers Out
General Fund	\$ 0	\$ (316,916)
Debt Service	73,484	0
Other Governmental Funds	246,927	(3,495)
Total	\$ 320,411	\$ (320,411)

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Note 19 - Jointly Governed Organizations

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

The School District is a participant in the Lake-Shore Northeast Ohio Computer Association (LNOCA) which is a computer consortium. LNOCA is an association made up of fourteen participating school districts. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. LNOCA is governed by an assembly consisting of the superintendents or other designees of the member school 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 2003, \$15,667 was paid to LNOCA for services. To obtain information write to LNOCA, 7800 Wall Street, Valley View, Ohio 44125.

B. Ohio Schools Council

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the members districts. Each district supports the Council by paying an annual participation fee. 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 2003, the School District paid \$650 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 Basic Financial Statements
For The Year Ended June 30, 2003**

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 20 - Insurance Purchasing Pool

Ohio School Boards Workers' Compensation Group Rating Program

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

Note 21 – Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

**Garfield Heights City School District
Cuyahoga County**

**Notes to the Basic Financial Statements
For The Year Ended June 30, 2003**

Note 22 - Set-Aside Calculations and Fund Reserves

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

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2002	\$ 125,721	\$ 58,851	\$ 0	\$ 184,572
Set-Aside Carryover Balance as of June 30, 2002	0	0	(2,628,122)	(2,628,122)
Current Year Set-Aside Requirement	0	492,537	492,537	985,074
Qualifying Disbursements	0	(18,590,990)	(539,205)	(19,130,195)
Total	<u>\$ 125,721</u>	<u>\$ (18,039,602)</u>	<u>\$ (2,674,790)</u>	<u>\$ (20,588,671)</u>
Cash Balance Carried Forward FY 2003	<u>\$ 125,721</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 125,721</u>
Amount to Restrict for Set-Asides				<u>\$ 125,721</u>
Total Restricted Assets				<u>\$ 125,721</u>

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

Note 23-Subsequent 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.

On May 3, 2005, the District's 9.3 mill proposed tax levy failed. The District has submitted two proposed tax levy's for the August 2, 2005 Special Election.

GARFIELD HEIGHTS CITY SCHOOL DISTRICT
Cuyahoga County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U. S. Department of Agriculture						
<i>Passed Through the Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$28,485	\$0	\$28,485
School Breakfast Program	05PU-2003	10.553	33,253	0	33,253	0
National School Lunch Program	LLP4-2002	10.555	103,081	0	103,081	0
National School Lunch Program	LLP4-2003	10.555	285,169	0	285,169	0
Total National School Lunch Program			388,250	0	388,250	0
Total U. S. Department of Agriculture - Nutrition Cluster			421,503	28,485	421,503	28,485
U. S. Department of Education						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education_Grants to States	6B-II-2002-P	84.027	15,619	0	14,534	0
Special Education_Grants to States	6B-SF-2002-P	84.027	1,440	0	4,912	0
Special Education_Grants to States	6B-SF-2003-P	84.027	458,575	0	456,257	0
Total Special Education_Grants to States			475,634	0	475,703	0
Special Education_Preschool Grants	PG-S1-2003-P	84.173	14,345	0	26,436	0
Total Special Education Cluster			489,979	0	502,139	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-2002	84.281	(3,929)	0	1,738	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S2-2000	84.281	(75)	0	0	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S1-2000	84.281	0	0	371	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S2-2001	84.281	0	0	870	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S2-2000	84.281	(15,781)	0	0	0
Eisenhower Professional Development State Grants Title II, Part B	MS-S2-2002	84.281	142,716	0	121,294	0
Total Eisenhower Professional Development State Grants Title II, Part B			122,931	0	124,273	0
Title I Targeted Assistance and School Wide	C1-S1-2002	84.010	3,561	0	28,801	0
Title I Targeted Assistance and School Wide	C1-S1-2003	84.010	186,379	0	183,004	0
Total Title I Targeted Assistance and School Wide			189,940	0	211,805	0
Goals 2000 - State and Local Education Systemic Improvement Grants	G2-S2-2001	84.276	0	0	10,875	0
Goals 2001 - State and Local Education Systemic Improvement Grants	G2-S4-2002	84.276	0	0	2,923	0
Total Goals 2000 - State and Local Education Systemic Improvement Grants			0	0	13,798	0
State Grants for Innovative Programs	C2-S1-2001	84.298	2,774	0	0	0
State Grants for Innovative Programs	C2-S1-2002	84.298	10,276	0	2,272	0
State Grants for Innovative Programs	C2-S1-2003	84.298	30,262	0	25,238	0
Total State Grants for Innovative Programs			43,312	0	27,510	0
Safe and Drug-Free Schools and Communities_State Grants	DR-S1-2002	84.186	0	0	10,621	0
Safe and Drug-Free Schools and Communities_State Grants	DR-S1-2003	84.186	9,087	0	6,683	0
Safe and Drug-Free Schools and Communities_State Grants - Cleveland Diocese	DR-S2-2001	84.186	(500)	0	0	0
Safe and Drug-Free Schools and Communities_State Grants - Cleveland Diocese	DR-S2-2002	84.186	76,455	0	17,469	0
Safe and Drug-Free Schools and Communities_State Grants	DR-S2-2003	84.186	362,901	0	352,315	0
Total Safe and Drug-Free Schools and Communities_State Grants			447,943	0	387,088	0
Even Start_State Educational Agencies	EV-S1-2003	84.213	312,094	0	218,466	0
Education Technology State Grants	TJS1-2003	84.318	5,249	0	3,033	0
Education Technology State Grants	TF53-2001	84.318	(16)	0	3,231	0
Total Education Technology State Grants			5,233	0	6,264	0
Reducing Class Size	CR-S1-2002	84.340	(87)	0	2,730	0
Assistive Technology Infusion Grant	AT-S2-2002	84.352A	1,553	0	1,553	0
Assistive Technology Infusion Grant	AT-S4-2002	84.352A	891	0	891	0
Total Assistive Technology Infusion Grant			2,444	0	2,444	0
Comprehensive School Reform Demonstration (CSR)/ HS	RF-S1-2001	84.332	5,000	0	12,610	0
Comprehensive School Reform Demonstration (CSR)/ MS	RF-S1-2001	84.332	7,500	0	54,966	0
Comprehensive School Reform Demonstration (CSR)	RF-S2-2002	84.332	113,012	0	85,410	0
Total Comprehensive School Reform Demonstration (CSR)			125,512	0	152,986	0
Title II - A - Improving Teacher Quality	TR-S1-2003	84.367	86,342	0	71,265	0
Title II - A - Improving Teacher Quality	TR-SA-2003	84.367	339,483	0	261,976	0
Total Title II- A - Improving Teacher Quality			425,825	0	333,241	0
Total U.S. Department of Education			2,165,126	0	1,982,744	0
<i>Passed Through the Cleveland Municipal School District</i>						
<i>Instructional Program Office:</i>						
Title I Targeted Assistance and School Wide	N/A	84.010	21,160	0	16,164	0
Total Federal Awards Receipts and Expenditures			\$2,607,789	\$28,485	\$2,420,411	\$28,485

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003**

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

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

NOTE C – NATIONAL SCHOOL LUNCH AND SPECIAL MILK PROGRAMS

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

NOTE D – TRANSFERS OF FUNDS

As a result of the elimination of the Eisenhower Professional Development Grant (CFDA #84.281) and the Reducing Class Size Grant (CFDA #84.340), \$19,785 and \$87 respectively, were transferred to the Title II A – Improving Teacher Quality Grant (CFDA #84.367).

NOTE E – TRANSFER BETWEEN SPECIAL COST CENTER

Beginning July 2002, a revised process was instituted by ODE to fund grants on a yearly cycle. First, a July 1 to June 30 fiscal period for each project aligns the project periods for all Federal and state projects as well as puts the projects on the same timing as the school's fiscal year. Second, this system permits the local educational agency to manage only one project from ODE rather than 3 under the previous system. Finally, this system virtually eliminates refunds by operating under the business rule of "old money is spent first by local educational agencies, regardless of when the funds were received."

The Safe and Drug Free Schools and Communities grant (CFDA #84.186) transferred \$500 from the 2001 project line to the 2003 project line. This is shown on the Schedule as a negative receipt for the 2001 project line and a positive receipt for the 2003 project line.

CFDA - Catalog of Federal Domestic Assistance.

N/A – Not applicable



Auditor of State Betty Montgomery

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

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 governmental activities, each major fund and the aggregate remaining fund information of the Garfield Heights City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 31, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement No 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-001 through 2003-003 and 2003-008 through 2003-015.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the District's management dated March 31, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-004 through 2003-007. In a separate letter to the District's management dated March 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

March 31, 2005



Auditor of State Betty Montgomery

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

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 apply to each of its major federal programs for the year ended June 30, 2003. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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.

As described in items 2003-016 through 2003-020 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Allowable Costs/Cost Principles and Procurement and Suspension and Debarment applying to its Child Nutrition Cluster program. Compliance with those requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Garfield Heights City School District, Cuyahoga County, Ohio, 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, 2003. The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-021.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-018 through 2003-021.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 31, 2005.

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



Betty Montgomery
Auditor of State

March 31, 2005

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified – Nutrition Cluster Unqualified – Title II-A–Improving Teacher Quality
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	<u>Nutrition Cluster</u> Food Donation – CFDA #10.550 School Breakfast Program – CFDA#10.553 National School Lunch Program – CFDA#10.555 Title II-A Improving Teacher Quality – CFDA#84.367
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	Yes

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-001
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Finding For Recovery

On May 10, 2005, the Garfield Heights City School District’s Coordinator of Food Service, Dawn Wheeler, was convicted of authorizing the District to spend \$65,241 on cleaning supplies from various out of state vendors at “grossly excessive prices” with the expectation that she would obtain personal benefits. The conviction followed Ms. Wheeler’s indictment in December, 2004, where she was charged with four counts of violating the federal mail fraud statute and one count of misapplication of federal program funds. Ms. Wheeler pled guilty to the charges in February, 2005. In exchange for the extreme purchasing and over ordering of cleaning supplies, the Coordinator would receive gift cards and other merchandise from these vendors that the District did not benefit from. The costs associated with the acquisition of these cleaning supplies were greatly inflated. Shipping costs were also excessive, estimated to be over a 1,000% higher markup than if the same cleaning supplies were acquired through local vendors. While cleaning supplies were being ordered through these various out of state vendors, Ms. Wheeler would also order cleaning supplies from local vendors for use in the cafeterias.

Ms. Wheeler rented an off-site storage unit to house the overstocked inventory of cleaning supplies ordered from various out of state vendors. No documentation was presented for audit indicating that this transaction was approved by District management. When the off-site storage unit was discovered, the inventory count included 132 cases of various cleaning supplies such as disinfectants, degreasers, and stainless steel cleaners which amounted to 797 cans of stainless steel cleaner and 366 gallons of liquid cleaners. The storage unit did not provide a temperature controlled environment for storing these chemicals over the summer and winter months. The extreme temperature changes and the weight of piling these chemicals on top of each other caused some of these cleaning chemicals to leak and labels to discolor and bubble. The District has discarded the entire inventory of cleaning supplies that were kept in the off-site storage unit (132 cases) because of the instability and volatility of chemicals after they have been exposed to extreme heat and freezing temperatures.

The stored inventory of 132 cases of various cleaning supplies purchased mostly from out of state vendors amounted to \$69,890. The District has paid \$65,241 to these vendors and does not plan to pay for the remaining \$4,649 of inventory on hand. In addition, the District has refused to pay for \$9,887 of inventory which is either located at the school’s cafeterias or unaccounted for. The inventory was ordered and received prior to the Superintendent’s approval and Treasurer’s certification. The total amount the District has refused to pay amounts to \$14,536.

As a result of Ms. Wheeler’s excessive ordering of cleaning supplies at greatly inflated prices, because she received personal benefits in exchange for the extreme purchasing and over ordering of the cleaning supplies, and because of her negligent safeguarding of those cleaning supplies which caused them to become volatile and instable, thus requiring disposal, pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Dawn Wheeler, Coordinator of Food Service for Garfield Heights City School District, in the amount of sixty-five thousand two hundred forty-one dollars (\$65,241), and in favor of the Food Service Fund.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-002
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Finding For Recovery

On May 10, 2005, the Garfield Heights City School District's Coordinator of Food Service, Dawn Wheeler, was convicted of arranging for the District to pay \$67,004 to a fictitious vendor, created by Ms. Wheeler, by the name of DM & C Supply Inc. for equipment and paper supplies that were never delivered. The conviction followed Ms. Wheeler's indictment in December, 2004, where she was charged with four counts of violating the federal mail statute and one count of misapplication of federal program funds. Ms. Wheeler pled guilty to the charges in February, 2005.

First, Ms. Wheeler would initiate a purchase requisition to acquire equipment and paper supplies for the District's cafeterias through the vendor name, DM & C Supply. The purchase requisitions were signed by the Superintendent after being reviewed and initialed by the Director of Business Services. A purchase order would then be prepared and given to the Treasurer to certify the availability of funds. Ms. Wheeler would then prepare an invoice for payment for which the District received no equipment or paper supplies. Finally, a check would be prepared by the District paid to DM & C Supply. Payments were mailed to a Post Office Box address established by Ms. Wheeler and subsequently cashed by her for personal gain.

As a result of Ms. Wheeler's diversion of public funds for personal gain and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Dawn Wheeler, Coordinator of Food Service for Garfield Heights City School District, in the amount of sixty-seven thousand and four dollars (\$67,004), and in favor of the Food Service Fund.

As of March 31, 2005, Ms. Wheeler has repaid \$7,265 of the finding for recovery.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-003
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Finding For Recovery

The Garfield Heights City School District's Coordinator of Food Service, Dawn Wheeler, shopped for and purchased food items from Gordon Food Service and used those items for personal use. When items are purchased from Gordon Food Service, they are identified on a Food Service Order Guide. The Food Service Order Guides were reviewed by the School Chef and Cafeteria Supervisor who highlighted all of the items on the Guides that were purchased by Ms. Wheeler but were never used for school activities. These items included cheesecakes, shrimp, BBQ wings, spinach dip, lobster tails, New York strip steaks, strip loin beef steaks, ribeye marinated beef steaks, jalapeno cheese cubes, co-jack cheese cubes, etc. The majority of these items were purchased in family size quantities that would be insufficient for cafeteria operations. The total amount paid to Gordon Food Service for items described above amounted to \$1,070.20.

In addition, during the month of December 2003, Ms. Wheeler purchased items such as shrimp rings, whole cashew square jars, deluxe mixed nuts square jars, cookies european assortment, and various other grocery items. These items were purchased for holiday parties and gifts for cafeteria employees and other employees of the District. The total amount paid for unauthorized parties amounted to \$568.46, while the amount of the unauthorized gifts given to employees totaled \$893.10.

As a result of Ms. Wheeler purchasing food items for personal use, unauthorized parties and gifts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Dawn Wheeler, Coordinator of Food Service for Garfield Heights City School District, in the amount of \$2,531.76, and in favor of the Food Service Fund.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

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

(Continued)

Finding Number	2003-004
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Negative Cash Balances

Ohio Rev. Code § 5705.10 provides, in part, that monies paid into any fund shall be used only for the purposes for which such fund was established.

The following funds had negative cash balances during the audit period, indicating that money from one fund was used to cover the expenses of another fund, and consequently, that money paid into a fund was not used for the purposes for which the fund had been established:

September 30th

Special Revenue Funds:

Community Diversion Program Fund	(\$4,530)
District Managed Student Activity Fund	(3,983)
EESA/NDEA Fund	(69,745)
Special Education Fund	(4,362)
Title I Fund	(1,147)

November 30th

Special Revenue Funds:

Community Diversion Program Fund	(\$4,102)
District Managed Student Activity Fund	(28,431)
Alternative School Fund	(40,660)
Title I Fund	(18,582)

Enterprise Fund:

Food Services Fund	(64,548)
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February 28th

Special Revenue Funds:

Health Benefits Reserve Fund	(\$62,095)
District Managed Student Activity Fund	(85,558)
Special Education Fund	(41,449)
Drug Free School Grant Fund	(93,904)
IDEA Pre School Grant for Handicapped Fund	(9,192)

Enterprise Fund:

Food Services Fund	(75,976)
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This weakness could cause a loss of accountability over the financial activity of the District including cash disbursements, budgeting and financial reporting. In addition, the negative cash balances could put a financial burden on the District if not adequately monitored and/or corrected on a timely basis.

We recommend the District review cash fund balances on a monthly basis to determine if any negative balances exist. If a negative balance occurs, the District should advance money to that fund from the General Fund.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

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

(Continued)

Finding Number	2003-005
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Expenditures Exceeded Appropriations

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Board of Education may not exceed appropriations at the legal level for all funds. The following funds had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
<i>As of February 28, 2003:</i>			
<i>Special Revenue Funds:</i>			
Teacher Development Fund	\$1,353	\$7,493	\$6,140
School Net Fund	0	45,136	45,136
Data Communications Fund	11,000	17,500	6,500
In-Service Professional Development Fund	24,000	41,486	17,486
EHA Title VI-B Fund	300,000	454,618	154,618
Title I Fund	202,000	234,570	32,570
Pre-school Handicapped Fund	20,000	23,865	3,865
Reducing Class Size Fund	75,000	199,823	124,823
<i>Debt Service Fund:</i>			
Bond Retirement Fund	3,877,000	4,471,695	594,695
<i>Capital Project Fund:</i>			
Construction/Building Fund	22,600,000	23,166,525	566,525
<i>As of June 30, 2003:</i>			
<i>Special Revenue Funds:</i>			
School Improvement Fund	\$3,903	\$4,823	\$920
District Managed Student Activity Fund	265,000	270,508	5,508
Auxiliary Service Fund	1,068,000	1,177,467	109,467
Teacher Development Fund	0	7,493	7,493
Student Intervention Fund	2,309	2,813	504
EESA & IDEA Fund	124,568	128,276	3,708
Title I Fund	600,734	604,557	3,823
Innovative Education Programs Fund	24,900	32,585	7,685
Drug Free School Grant Fund	398,664	400,352	1,688
IDEA Pre-School Grant for Handicapped Fund	24,000	26,435	2,435
Improving Teacher Quality Fund	397,562	450,537	52,975
<i>Capital Projects Funds:</i>			
Permanent Improvement Fund	518,000	523,410	5,410
Construction/Building Fund	22,600,000	25,596,976	2,996,976
<i>Enterprise Fund:</i>			
Food Services Fund	1,219,550	1,261,888	42,338

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

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

(Continued)

Finding Number	2003-005
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(Continued)

Expenditures Exceeded Appropriations (Continued)

We recommend the District verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control (fund level), to maintain compliance with the above requirements.

Finding Number	2003-006
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Certification of Availability of Appropriations

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

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

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

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-006
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(Continued)

Certifications of Availability of Appropriations (Continued)

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

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

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

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

Finding Number	2003-007
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Ohio Revised Code § 102.03 (D) states that no public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person’s duties.

As stated in Finding Numbers 2003-001 and 2003-016, the Garfield Heights City School District’s Coordinator of Food Service, Dawn Wheeler, used her authority and influence to purchase excessive amounts of cleaning supplies from out of state vendors. In return, Ms. Wheeler received various kickbacks such as gift cards and other merchandise. As stated in Finding Numbers 2003-002 and 2003-017, Ms. Wheeler used her authority and influence to create a fictitious vendor in which she paid herself \$67,004. Finally, as stated in Finding Numbers 2003-003 and 2003-020, Ms. Wheeler used her authority and influence to purchase food items for personal use, unauthorized parties and unauthorized gifts.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-007
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(Continued)

We recommend the District, with the help of its legal counsel, develop a formal policy regarding related party transactions to govern transactions in which members of the District may have conflicts of interest or a personal interest in receiving kickbacks associated with the procurement of goods or services. These policies should be communicated to all employees of the District. Conflict of interest statements should be maintained for all individuals with responsibility over the procurement of goods or services.

This matter will be referred to the Ohio Ethics Commission.

Finding Number	2003-008
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Removal of Assets from School Property

The Coordinator of Food Service rented an off-site storage unit to house the overstocked inventory of cleaning supplies ordered from various out of state vendors. No documentation was presented for audit that this transaction was approved by District management. When the off-site storage unit was discovered by the Auditor of State, the inventory count included 132 cases of various cleaning supplies such as disinfectants, degreasers, and stainless steel cleaners. This equated to 797 cans of stainless steel cleaner and 366 gallons of liquid cleaners. The storage unit did not provide a temperature controlled environment for storing chemicals over the summer and winter months. The extreme temperature changes and the weight of piling these chemicals on top of each other caused some of these cleaning chemicals to leak and labels to discolor and bubble.

While the off-site storage unit went undetected by the Superintendent, the Director of Business Services, and the Treasurer, it was known by two high school custodians who assisted the Coordinator of Food Service in loading cases of cleaning supplies in her personal vehicle. The Coordinator made them aware that the cleaning supplies were being stored off-site in a storage unit that she was renting.

We recommend that management develop a written policy regarding the removal of school property from the school premises without prior authorization from the Superintendent. This policy should be communicated to all school employees. We also recommend that management develop a policy regarding the reporting of unusual activity witnessed or heard by employees to the Superintendent, the Director of Business Services and the Treasurer. Procedures should address management's responsibilities for investigating alleged complaints with follow up communication and disciplinary action if applicable.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-009
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Out of State Purchases

The Coordinator of Food Service made numerous purchases of chemical and stainless steel cleaners from various out of state vendors. The purchases of these products, spanning a 16 month period, amounted to \$79,777, of which the District has paid \$65,241. The District does not plan to pay for the remaining \$14,536 of which the District was invoiced for cleaning supplies received. The Treasurer stated to us that he confronted the Coordinator of Food Service about the unpaid balance and communicated to her that the District refuses to pay for the acquired goods as they were not approved by the Superintendent nor were the funds certified as to being available prior to ordering. The Coordinator indicated to the Treasurer that she would take care of it. The District has not received any second notices or communications from any of the out of state vendors regarding past due amounts.

The District did not receive any cost savings from acquiring these cleaning products from out of state vendors, and in fact, overpaid considerably for these products. It is estimated that the District paid in excess of 1,000% higher price for the cleaning products acquired out of state than if they had acquired the products from a local vendor. In addition, the shipping costs for these chemicals were excessive while local vendors usually ship their products free of charge.

We recommend management establish a written policy that would detail the procedures to be followed when ordering products from out of state vendors. The policy should also require a written statement as to the cost benefits received in ordering goods with an out of state vendor as opposed to acquiring those goods from a local vendor. The pricing for out of state goods should be competitively compared with local vendor pricing and include incidental charges, such as the shipping and handling of goods for delivery. The out of state purchase should have the approval of the Superintendent.

Finding Number	2003-010
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Food Service Preparation

While reviewing expenditures for the breakfast and lunch programs, we noted many food items which were being purchased ready-made. These food items included ready-made sandwiches from Arby's and Mr. Hero, and pizzas from Geppetto's. The sandwiches were sold for a price that was less than what the District paid for them. These sandwiches could have been prepared by cafeteria staff at less of a cost than purchasing these ready-made sandwiches. Also, frozen pizzas are considerably cheaper than ordering pizzas from a vendor. The District spent \$34,540 on pizzas and sandwiches for the fiscal year ending June 30, 2003.

It was communicated to us that the cafeteria staff would intentionally order more than they could sell in a day so that they could give free meals to employees and so that the cafeteria staff would have food to take home at the end of the day. In addition, the cafeteria staff was permitted to have beverages and snacks without paying for them. This can become very inefficient and costly to the District.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-010
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(Continued)

We recommend management more closely monitor all aspects of food preparation by the cafeteria staff. In addition, the practice of providing meals to employees free of charge, taking home food at the end of day and allowing cafeteria staff to have beverages and snacks without paying for them should be stopped immediately. Management should require a daily inventory report from school cafeterias which details the amount of items prepared and sold. The inventory report should include spoilage and the amount of remaining food items. Management should communicate to all cafeteria staff that under no circumstances are they to give meals away to other employees free of charge or take food home with them. If ready made items are purchased, they should be sold at a breakeven cost and not at a loss to the District.

Finding Number	2003-011
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Monitoring the Purchasing Cycle

The District's Coordinator of Food Service was able to create a fictitious vendor by the name of DM & C Supply Inc. and misappropriate moneys for personal gain by creating invoices for this fictitious vendor. Payments were mailed to a Post Office Box address established by the Coordinator and subsequently cashed by her. She used her social security number as an IRS business identification number.

While legitimate vendors will use Post Office Box addresses, the unusual characteristics about this fictitious vendor's invoices, created by the Coordinator of Food Service, should have sent up a red flag. There was no company logo, company phone number, company bar code on the invoice for tracking, sales representative name, unit price for goods ordered, customer signature indicating the delivery of goods or shipping address as to where the goods ordered were to be delivered. Occasionally, under the "Quantity of Items" line, a date was present and not the quantity of items ordered and the description of goods ordered was simply labeled "Paper Supplies." The description did not always specify what type of product it was, the quantity of items ordered or the shipping and freight charges associated with the delivery of the goods. The invoices that had descriptions of goods ordered included: napkins, paper plates, paper towels, a milk cooler, work table with sink and a warmer rack. Heavy or large pieces of equipment will usually have shipping or freight charges associated with them and designate the name of the carrier that will deliver the goods.

A total of 15 purchase requisitions, purchase orders, and invoices from DM & C Supply Inc. passed through the District's purchasing cycle for a total of \$67,004 and went unchallenged by all levels of management. No irregularities were detected at the levels of the Superintendent, who approved the purchase requisitions, the Director of Business Services, who reviewed the purchase requisitions, the Treasurer, who certified the availability of funds, and the Accounts Payable Clerk, who processed the payments. For example, the description on purchase requisition No. 16704, dated October 1, 2002, says "paper supplies for all schools for September, 2002." This was followed by purchase requisition No. 16705, dated October 1, 2002, which said, "paper supplies for all schools for October 2002." Both purchase requisitions were approved by the Superintendent and Director of Business Services on the same day and the purchase order for both requisitions was prepared and certified by the Treasurer on October 15, 2002. Based on the factors noted above, a weakness exists in the purchasing review process where errors or irregularities are likely to go undetected.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-011
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(Continued)

We recommend that management adopt an improved monitoring system and more complete procedures for authorizing purchase requisitions and purchase orders, approving payments on invoices and for inventorying goods received. Any errors or irregularities should be thoroughly investigated.

Finding Number	2003-012
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Bank Reconciliations

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

The District did not perform complete and accurate monthly reconciliations during the entire audit period. While reviewing the monthly reconciliations, we noted that almost every month had an unreconciled variance ranging from \$43 up to \$20,265. The unreconciled variance was written-off as an adjustment at the end of each month. Sometimes the book balance was greater than the bank balance and other times the bank balance was greater than the book balance. The net effect of the written-off, unreconciled variances amounted to a \$21,543 bank over book balance.

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

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

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

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

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

Finding Number	2003-013
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Budgetary Reporting

A review of the budgetary reports generated by the District's accounting system disclosed that estimated resources and appropriations data was not posted to their system and therefore was not in agreement with the source documents. Reports which are not in agreement with the underlying documents severely mitigate the District's ability to properly monitor budgetary information.

We recommend the Treasurer provide the Board and Superintendent with updated monthly budgetary reports that reflect the most current financial information. The information should include estimated resources compared to actual receipts and appropriations compared to expenditures plus encumbrances.

Finding Number	2003-014
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Payroll Approval

While reviewing controls over the District's payroll cycle, we noted various employees, such as custodians, teachers and bus drivers, who were having their time sheets approved by their co-workers and not by a department head or supervisor. Some employees were under the impression that their payroll time sheets should be signed by a fellow union employee. The approving of payroll is an administrative function and by allowing a fellow union employee to approve another union employee's time sheets weakens the controls over the review process. A department head or supervisor is responsible for monitoring an employee's hours and is the person most qualified to approve the hours that the employee has worked while under his or her supervision.

We recommend all employees who are required to fill out a time sheet or use a time card have their hours approved by the appropriate department head or supervisor who manages their daily work schedule.

Finding Number	2003-015
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Back Dating Checks - Finding for Adjustment

A review of outstanding checks for the fiscal year ending June 30, 2003 disclosed that the District's accounts payable clerks back dated checks written in July 2003 with a date of June 30, 2003. These checks written in July 2003 were included on the District's outstanding list at June 30, 2003 and totaled \$429,870. The expenditure cycle is not considered to be completed until the check is written, posted, and mailed. To back date checks that are written after the end of the fiscal year is not an acceptable accounting practice. An audit adjustment was required since it impacted the District's actual cash fund balances at June 30, 2003. The financial statements reflect this correcting adjustment.

We recommend the District establish procedures that communicate proper reconciling items and an accurate cash cut-off at the end of each month and especially at fiscal year end. At no time should checks be back dated or identified as outstanding until the expenditure cycle has been completed.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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1. Allowable Costs/Cost Principles

Finding Number	2003-016
CFDA Title and Number	Child Nutrition Cluster – National School Breakfast Program CFDA 10.553 and National School Lunch Program – 10.555
Federal Award Number / Year	05PU-2003, LLP4-2002, and LLP4-2003
Federal Agency	U. S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Questioned Cost

OMB Circular A-87, Attachment (A), Section C (1) (a) requires that to be allowed under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. In addition, costs must be legal, proper, and consistent with the policies that govern the recipient’s own expenditures.

On May 10, 2005, the Garfield Heights City School District’s Coordinator of Food Service, Dawn Wheeler, was convicted of authorizing the District to spend \$65,241 on cleaning supplies from various out of state vendors at “grossly excessive prices” with the expectation that she would obtain personal benefits. The conviction followed Ms. Wheeler’s indictment in December, 2004, where she was charged with four counts of violating the federal mail fraud statute and one count of misapplication of federal program funds. Ms. Wheeler pled guilty to the charges in February, 2005. In exchange for the extreme purchasing and over ordering of cleaning supplies, the Coordinator would receive gift cards and other merchandise from these vendors that the District did not benefit from. The costs associated with the acquisition of these cleaning supplies were greatly inflated. Shipping costs were also excessive, estimated to be over a 1,000% higher markup than if the same cleaning supplies were acquired through local vendors. While cleaning supplies were being ordered through these various out of state vendors, Ms. Wheeler would also order cleaning supplies from local vendors for use in the cafeterias.

Ms. Wheeler rented an off-site storage unit to house the overstocked inventory of cleaning supplies ordered from various out of state vendors. No documentation was presented for audit indicating that this transaction was approved by District management. When the off-site storage unit was discovered, the inventory count included 132 cases of various cleaning supplies such as disinfectants, degreasers, and stainless steel cleaners which amounted to 797 cans of stainless steel cleaner and 366 gallons of liquid cleaners. The storage unit did not provide a temperature controlled environment for storing these chemicals over the summer and winter months. The extreme temperature changes and the weight of piling these chemicals on top of each other caused some of these cleaning chemicals to leak and labels to discolor and bubble. The District has discarded the entire inventory of cleaning supplies that were kept in the off-site storage unit (132 cases) because of the instability and volatility of chemicals after they have been exposed to extreme heat and freezing temperatures.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

1. Allowable Costs/Cost Principles (Continued)

Finding Number	2003-016 (Continued)
CFDA Title and Number	Child Nutrition Cluster – National School Breakfast Program CFDA 10.553 and National School Lunch Program – 10.555
Federal Award Number / Year	05PU-2003, LLP4-2002, and LLP4-2003
Federal Agency	U. S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Questioned Cost (Continued)

The stored inventory of 132 cases of various cleaning supplies purchased mainly from out of state vendors amounted to \$69,890. The District has paid \$65,241 to these vendors and does not plan to pay for the remaining \$4,649 of inventory on hand. In addition, the District has refused to pay for \$9,887 of inventory which is either located at the school's cafeterias or unaccounted for. The inventory was ordered and received prior to the Superintendent's approval and Treasurer's certification. The total amount the District has refused to pay amounts to \$14,536.

The cleaning supplies were paid with federal funds from the District's Child Nutrition Cluster program. We are questioning the costs for these purchases and whether they were necessary and reasonable for proper and efficient performance and administration of the federal award.

Federal Questioned Cost:

Discarded inventory purchased with federal funds	\$65,241
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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

2. Allowable Costs/Cost Principles

Finding Number	2003-017
CFDA Title and Number	Child Nutrition Cluster – National School Breakfast Program CFDA 10.553 and National School Lunch Program – 10.555
Federal Award Number / Year	05PU-2003, LLP4-2002, and LLP4-2003
Federal Agency	U. S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Questioned Cost

OMB Circular A-87, Attachment (A), Section C (1) (a) requires that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. In addition, costs must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

On May 10, 2005, the Garfield Heights City School District's Coordinator of Food Service, Dawn Wheeler, was convicted of arranging for the District to pay \$67,004 to a fictitious vendor, created by Ms. Wheeler, by the name of DM & C Supply Inc. for equipment and paper supplies that were never delivered. The conviction followed Ms. Wheeler's indictment in December, 2004, where she was charged with four counts of violating the federal mail statute and one count of misapplication of federal program funds. Ms. Wheeler pled guilty to the charges in February, 2005.

First, Ms. Wheeler would initiate a purchase requisition to acquire equipment and paper supplies for the District's cafeterias through the vendor name, DM & C Supply. The purchase requisitions were signed by the Superintendent after being reviewed and initialed by the Director of Business Services. A purchase order would then be prepared and given to the Treasurer to certify the availability of funds. Ms. Wheeler would then prepare an invoice for payment for which the District received no equipment or paper supplies. Finally, a check would be prepared by the District paid to DM & C Supply. Payments were mailed to a Post Office Box address established by Ms. Wheeler and subsequently cashed by her for personal gain.

The payments to DM & C Supply Inc. were paid with federal funds from the District's Child Nutrition Cluster program.

We are questioning the payments to DM & C Supply Inc. and whether it was necessary and reasonable for proper and efficient performance and administration of the federal award.

Federal Questioned Cost:

Diverting federal funds for personal gain	\$67,004
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**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

3. Procurement and Suspension and Debarment

Finding Number	2003-018
CFDA Title and Number	Child Nutrition Cluster – National School Breakfast Program CFDA 10.553 and National School Lunch Program – 10.555
Federal Award Number / Year	05PU-2003, LLP4-2002, and LLP4-2003
Federal Agency	U. S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding

Title 7 of the Code of Federal Regulations (CFR) establishes the administrative requirements pertaining to procurement using cluster program funds. 7 CFR part 226.22(c) provides that entities must establish and adhere to policies designed to prevent the inappropriate interest of individuals in procurement transactions funded in whole or part by federal funds. 7 CFR part 3015.61(a)-(b) provides that an entity's financial management system and accounting records must provide appropriate documentation to identify, track, record, and support transactions.

The Garfield Heights City School District's Coordinator of Food Service purchased excessive amounts of cleaning supplies from various out of state vendors. In exchange for the extreme purchasing and over ordering of cleaning supplies, the Coordinator would receive gift cards and other merchandise from these vendors from which the District did not benefit. For example, INCO 1 Distributors Inc, a Florida based vendor, sent a microwave oven to the District in consideration for doing business with them. The Coordinator of Food Service instructed a cafeteria employee to take the microwave oven off of school property with the admonishment that it should never have been sent to the District's address. The cafeteria employee followed the instructions of the Coordinator of Food Service and took the microwave oven home and subsequently gave it to her daughter. We believe the procurement of the cleaning supplies are the result of an inappropriate interest the Coordinator of Food Service had with the out of state vendors in exchange for kickbacks such as gift cards and other merchandise from which the District did not benefit.

We recommend the District establish procedures to identify risks arising from vendor inadequacy, e.g., quality of goods and services, delivery schedules, warranty assurances, and user support. Procedures should also be established to identify risks arising from conflicts-of-interest, e.g., kickbacks, related party transactions, and bribery. Policies regarding conflicts-of-interest, kickbacks and bribery associated with the procurement of goods or services should be established and communicated to all employees of the District. Conflict-of-interest statements should be maintained for all individuals with responsibility for procurement of goods or services.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

4. Allowable Costs/Cost Principles

Finding Number	2003-019
CFDA Title and Number	Child Nutrition Cluster – National School Breakfast Program CFDA 10.553 and National School Lunch Program – 10.555
Federal Award Number / Year	05PU-2003, LLP4-2002, and LLP4-2003
Federal Agency	U. S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding

OMB Circular A-87, Attachment (A), Section C (1) (a) requires that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. In addition, costs must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

Prior to hiring a Coordinator of Food Service, the District acquired cleaning supplies from local vendors. While the Coordinator of Food Service continued to purchase cleaning supplies from local vendors, she also began purchasing the same cleaning supplies from various out of state vendors. Over a period of 16 months, the Child Nutrition Cluster paid \$65,241 of federal moneys for cleaning supplies from these out of state vendors. Based on research performed by the Treasurer, he estimated that the same cleaning supplies could have been acquired from local vendors at a cost of under \$6,500. The District was invoiced \$79,777 by the out of state vendors, but the District refused to pay the \$14,536 remaining after the payment by the Child Nutrition Cluster upon the State Auditor's Office bringing to management's attention the over pricing of the cleaning supplies and the excessive ordering of the cleaning supplies from the out of state vendors. When the Treasurer refused to pay the remaining balance of \$14,536, the Coordinator of Food Service said she would take care of the balance owed to the out of state vendors. The District has not received a second notice or any communication regarding the \$14,536 balance.

We believe the excessive purchases from out of state vendors for cleaning supplies was not necessary and reasonable for the proper and efficient performance and administration of federal Child Nutrition Cluster moneys.

We recommend that management more closely monitor the purchasing or items such as cleaning supplies and obtain bid quotes when possible to ensure the District is receiving competitive prices. The frequency of ordering should be closely monitored for possible waste or overstocking. Any items that can be purchased locally as opposed to out of state should be closely scrutinized. The Treasurer and/or Director of Business Services should challenge a purchase when it is found that an item had been ordered prior to a purchase requisition being prepared and approved by the Superintendent and prior to the purchase order being signed by the Treasurer certifying the availability of moneys.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

5. Allowable Costs/Cost Principles

Finding Number	2003-020
CFDA Title and Number	Child Nutrition Cluster – National School Breakfast Program CFDA 10.553 and National School Lunch Program – 10.555
Federal Award Number / Year	05PU-2003, LLP4-2002, and LLP4-2003
Federal Agency	U. S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding

OMB Circular A-87, Attachment (A), Section C (1) (a) requires that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. In addition, costs must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

The Coordinator of Food Service shopped for and purchased food items for personal use from Gordon Food Service and charged the costs against the Food Service Fund, which is funded in part with federal Child Nutrition Cluster funds. When items are purchased from Gordon Food Service, they are identified on a Food Service Order Guide. The Food Service Order Guides were reviewed by the School Chef and Cafeteria Supervisor who highlighted all of the items on the Guides that were purchased by the Coordinator of Food Service but were never used for school activities. These items included cheesecakes, shrimp, BBQ wings, spinach dip, lobster tails, New York strip steaks, strip loin beef steaks, ribeye marinated beef steaks, jalapeno cheese cubes, co-jack cheese cubes, etc. The majority of these items were purchased in family size quantities that would be insufficient for cafeteria operations. The total amount paid to Gordon Food Service for items described above amounted to \$1,070.20.

In addition, during the month of December 2003, the Coordinator of Food Service purchased items such as shrimp rings, whole cashew square jars, deluxe mixed nuts square jars, cookies european assortment, and various other grocery items. These items were purchased for holiday parties and gifts for cafeteria employees and other employees of the District. The costs of these items were charged to the Food Service Fund, which is funded in part with federal Child Nutrition Cluster funds. The total amount paid for unauthorized parties amounted to \$568.46, while the amount of the unauthorized gifts given to employees totaled \$893.10.

We recommend the District review the Food Service Order Guides on a monthly basis for items purchased and appearing on the Guides which would be considered unusual. These items should be brought to the attention of the Director of Business Services and Treasurer and thoroughly investigated. The District should also establish policies regarding authorized uses of Child Nutrition Cluster funds to ensure that costs for purchases from these funds are necessary and reasonable. These funds should not be used to purchase employee gifts or food for District parties.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

6. Allowable Costs/Cost Principles

Finding Number	2003-021
CFDA Title and Number	Child Nutrition Cluster – National School Breakfast Program CFDA 10.553 and National School Lunch Program – 10.555
Federal Award Number / Year	05PU-2003, LLP4-2002, and LLP4-2003
Federal Agency	U. S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding

OMB Circular A-87, Attachment (A), Section C (1) (a) requires that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. In addition, costs must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

While reviewing purchases made by the Coordinator of Food Service from Gordon Food Market Place, we noted that food items for concession operations were made on November 29, 2003 for the Senior Class of 2004, on December 23, 2003 for the Class of 2005 and on December 30, 2003 for the National Honor Society. These purchases were made with federal Child Nutrition Cluster funds.

The purchasing of food, snacks, beverages, paper products and any other items for concession operations should not be made with Child Nutrition Cluster funds. These funds are to be used for the school's breakfast and lunch programs. Concession stand operations for athletic events, special events, or student fund raisers are activities that are separate from food service operations and should not be commingled with federal breakfast and lunch program activities.

We recommend that purchases for concession operations be kept separate from the District's food service operations. In addition, Child Nutrition Cluster funds should not be used to finance the District's concession operations. The District should establish policies regarding authorized uses of Child Nutrition Cluster funds to ensure that costs for purchases from these funds are necessary and reasonable.

**GARFIELD HEIGHTS CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2003**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Ohio Revised Code Section 5705.39	No	Finding no longer valid. Citation reissued as a management letter comment.
2002-002	Ohio Revised Code Section 9.833	Yes	
2002-003	Ohio Revised Code Section 5705.10	No	Not corrected and reissued in current year.
2002-004	Ohio Revised Code Section 5705.41(B)	No	Not corrected and reissued in current year.
2002-005	Excessive reserve in self insurance for health care.	Yes	



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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 14, 2005**