

**JAMES A. GARFIELD LOCAL
SCHOOL DISTRICT**

PORTAGE COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

TRACY KNAUER, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
James A. Garfield Local School District
10235 State Route 88
Garrettsville, Ohio 44231

We have reviewed the *Independent Auditors' Report* of the James A. Garfield Local School District, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 to June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 12, 2007

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JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 17, 2006

The Board of Education
James A. Garfield Local School District
10235 SR 88
Garrettsville, OH 44231

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of James A. Garfield Local School District (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 School District, as of June 30, 2006, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2006 on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

James A. Garfield Local School District
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The management's discussion and analysis of the James A. Garfield Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$299,850 which represents a 12.28% increase from 2005.
- General revenues accounted for \$11,204,855 in revenue or 84.52% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,051,583 or 15.48% of total revenues of \$13,256,438.
- The District had \$12,956,588 in expenses related to governmental activities; \$2,051,583 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,204,855 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$11,416,532 in revenues and other financing sources and \$11,211,286 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased \$205,246 from \$574,202 to \$779,448.

Using these Basic Financial Statements

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

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

Reporting the 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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the General fund.

Governmental Funds

Most of the 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 financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you to 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic 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. These notes to the basic financial statements can be found on pages 21-46 of this report.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis has been provided.

The table below provides a summary of the District's net assets for 2006 and 2005. Certain 2005 balances have been restated due to a restatement of the June 30, 2005 net assets described in Note 3.B. of the notes to the basic financial statements.

	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 7,245,776	\$ 6,811,605
Capital assets, net	<u>8,082,694</u>	<u>8,149,083</u>
Total assets	<u>15,328,470</u>	<u>14,960,688</u>
<u>Liabilities</u>		
Current liabilities	5,891,468	5,765,397
Long-term liabilities	<u>6,694,964</u>	<u>6,753,113</u>
Total liabilities	<u>12,586,432</u>	<u>12,518,510</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,979,183	1,969,810
Restricted	370,934	299,295
Unrestricted	<u>391,921</u>	<u>173,073</u>
Total net assets	<u>\$ 2,742,038</u>	<u>\$ 2,442,178</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$2,742,038. Of this total, \$370,934 is restricted in use.

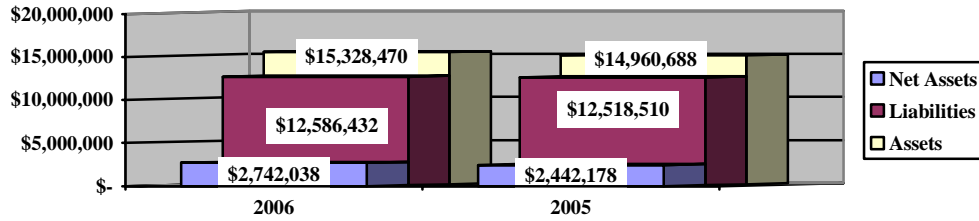
At year-end, capital assets represented 52.73% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$1,979,183. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$370,934, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$391,921 may be used to meet the District's ongoing obligations to the students and creditors.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005. Certain 2005 balances have been restated due to a restatement of net assets described in Note 3.B. of the notes to the basic financial statements.

	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	2006	2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,203,906	\$ 1,083,344
Operating grants and contributions	830,013	769,913
Capital grants and contributions	17,664	14,030
General revenues:		
Property taxes	4,723,793	4,618,663
Grants and entitlements	6,328,136	6,226,154
Investment earnings	104,262	37,838
Other	48,664	10,563
Total revenues	<u>\$ 13,256,438</u>	<u>\$ 12,760,505</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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Change in Net Assets

	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,777,371	\$ 5,568,197
Special	1,013,825	914,379
Adult/Continuing	2,900	3,589
Other	91,982	2,012
Support services:		
Pupil	554,467	504,490
Instructional staff	410,817	419,746
Board of education	36,062	37,414
Administration	1,130,118	1,091,686
Fiscal	305,221	305,076
Operations and maintenance	1,304,010	1,124,953
Pupil transportation	931,954	847,196
Central	43,834	35,930
Operations of non-instructional services:		
Non-instructional services	23,557	6,817
Food service operations	570,321	458,668
Extracurricular activities	418,139	343,004
Interest and fiscal charges	<u>342,010</u>	<u>466,992</u>
Total expenses	<u>12,956,588</u>	<u>12,130,149</u>
Change in net assets	299,850	630,356
Net assets at beginning of year (restated)	<u>2,442,188</u>	<u>1,811,832</u>
Net assets at end of year	<u>\$ 2,742,038</u>	<u>\$ 2,442,188</u>

Governmental Activities

Net assets of the District's governmental activities increased \$299,850. Total governmental expenses of \$12,956,588 were offset by program revenues of \$2,051,583 and general revenues of \$11,204,855. Program revenues supported 15.83% of the total governmental expenses.

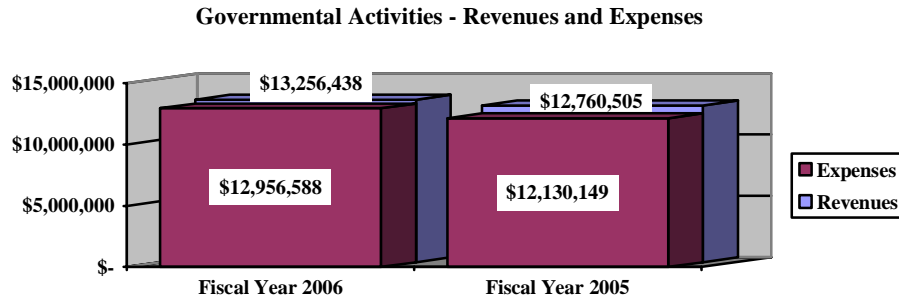
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 83.37% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,886,078 or 53.14% of total governmental expenses for fiscal 2006.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements. The following is a comparison of 2006 and 2005. Certain 2005 balances have been restated due to a restatement of the June 30, 2005 net assets described in Note 3.B. in the notes to the basic financial statements.

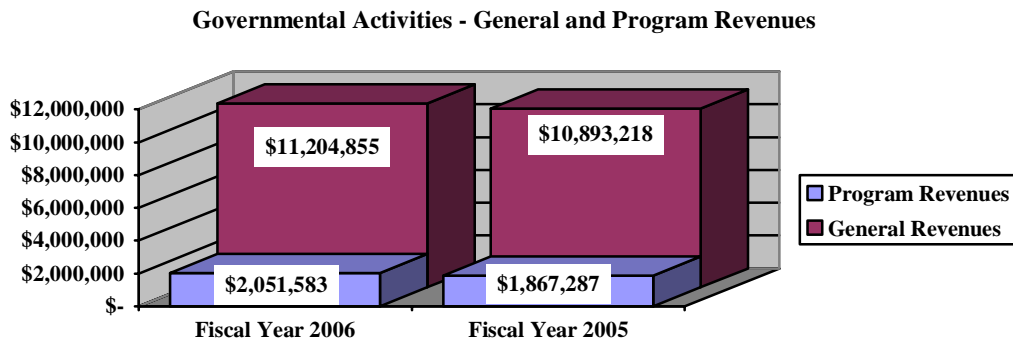
	Governmental Activities			
	Total Cost of Services 2006	Net Cost of Services 2006	Restated Total Cost of Services 2005	Restated Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 5,777,371	\$ 5,010,237	\$ 5,568,197	\$ 4,892,303
Special	1,013,825	767,636	914,379	461,108
Adult/continuing	2,900	-	3,589	289
Other	91,982	73,385	2,012	(795)
Support services:				
Pupil	554,467	493,670	504,490	501,749
Instructional staff	410,817	252,878	419,746	390,682
Board of education	36,062	36,062	37,414	37,414
Administration	1,130,118	1,057,672	1,091,686	1,032,890
Fiscal	305,221	305,221	305,076	305,076
Operations and maintenance	1,304,010	1,304,010	1,124,953	1,124,953
Pupil transportation	931,954	931,954	847,196	833,166
Central	43,834	(1,020)	35,930	(5,838)
Operations of non-instructional services:				
Non-instructional services	23,557	5,227	6,817	(2,214)
Food service operations	570,321	8,849	458,668	(18,431)
Extracurricular activities	418,139	317,214	343,004	243,518
Interest and fiscal charges	342,010	342,010	467,002	467,002
Total expenses	<u>\$ 12,956,588</u>	<u>\$ 10,905,005</u>	<u>\$ 12,130,159</u>	<u>\$ 10,262,872</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 84.97% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.17%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,108,637, which is higher than last year's total of \$901,296. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase	Percentage Change
General	\$ 779,448	\$ 574,202	\$ 205,246	35.74%
Other Governmental	<u>329,189</u>	<u>327,094</u>	<u>2,095</u>	0.64%
Total	<u>\$ 1,108,637</u>	<u>\$ 901,296</u>	<u>\$ 207,341</u>	23.00%

General Fund

The District's general fund balance increased \$205,246. The table that follows assists in illustrating the financial activities of the general fund.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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	2006 <u>Amount</u>	2005 <u>Amount</u>	<u>Increase</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Taxes	\$ 4,177,359	\$ 4,156,852	\$ 20,507	0.49 %
Tuition	667,491	563,169	104,322	18.52 %
Earnings on investments	103,239	37,838	65,401	172.84 %
Intergovernmental	6,273,323	6,182,000	91,323	1.48 %
Other revenues	<u>47,931</u>	<u>11,063</u>	<u>36,868</u>	333.25 %
Total	<u>\$ 11,269,343</u>	<u>\$ 10,950,922</u>	<u>\$ 318,421</u>	2.91 %
<u>Expenditures</u>				
Instruction	\$ 6,370,326	\$ 5,809,883	\$ 560,443	9.65 %
Support services	4,324,939	3,948,822	376,117	9.52 %
Extracurricular activities	313,981	253,380	60,601	23.92 %
Capital outlay	145,939	26,590	119,349	448.85 %
Debt service	<u>56,057</u>	<u>19,764</u>	<u>36,293</u>	183.63 %
Total	<u>\$ 11,211,242</u>	<u>\$ 10,058,439</u>	<u>\$ 1,152,803</u>	11.46 %

The significant increase in earnings on investments is primarily due to an increase in the amount of investments due to an increase in the overall cash balance invested by the District and an increase in interest rates. The increase in other revenue is due to the receipt of funds to early retire old leases and issue new leases. The increase in tuition is due to the increased number of students from open enrollment. The increase in capital outlay is due to the implementation of new leases for copier equipment during fiscal year 2006. The increase in debt service expenditures is due to the early retirement of old leases.

General Fund Budgeting Highlights

The 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 budgeted fund is the general fund.

During the course of fiscal 2006, the District amended its general fund budget a few times. For the general fund, original budgeted revenues and other financing sources were \$10,994,733 and final budgeted revenues and other financing sources were \$11,339,377. Actual revenues and other financing sources for fiscal 2006 were \$11,336,330. This represents a \$3,047 decrease below final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$10,834,152 were increased to \$11,428,568 in the final appropriations. The actual budget basis expenditures for fiscal year 2006 totaled \$11,123,482, which was \$305,086 below the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$8,082,694 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 118,773	\$ 118,773
Land improvements	-	-
Building and improvements	7,237,511	7,434,985
Furniture and equipment	363,055	232,335
Vehicles	363,355	362,990
Total	\$ 8,082,694	\$ 8,149,083

The overall decrease in capital assets of \$66,389 is due to capital outlays of \$288,194 were less than depreciation expense of \$349,910 and disposals of \$4,673 (net of accumulated depreciation) in the current fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2006, the District had \$5,957,572 in general obligation bonds and \$145,939 in capital lease obligations outstanding. The general obligation bonds consist of current interest bonds and capital appreciation bonds. The capital appreciation bonds include accreted interest in the amount of \$232,580 and mature during fiscal years 2007 and 2008. Of this total, \$248,434 is due within one year and \$5,855,077 is due in greater than one year. The following table summarizes the bonds, notes and leases outstanding. The 2005 general obligation bonds balance has been restated in order to properly accrue the accreted interest on the capital appreciation bonds as described in Note 3.B. of the notes to the financial statements.

Outstanding Debt, at Year End

	Governmental Activities	
	2006	Restated 2005
General obligation bonds	\$ 5,957,572	\$ 6,125,326
Capital lease obligations	145,939	53,937
Total	\$ 6,103,511	\$ 6,179,263

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The Board of Education and administration closely monitor its revenue and expenditures in accordance with its financial forecast. The District has communicated to its community the reliance upon their support for the majority of its operations, and that it will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

A major challenge facing the District and others throughout the State is the uncertainty surrounding state funding in Ohio. On March 24, 1997 the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County, where the case originated, reviewed the new laws and on February 26, 1999 determined they were not sufficient to correct the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. In May 2000, the Supreme Court ruled that the State of Ohio had not done enough to comply with the original order found in the original case. The Court gave the State of Ohio until June 15, 2001 to correct their method of funding schools.

The school funding system was declared unconstitutional again in September 2001, and most recently in December 2002. The Supreme Court has again directed the General Assembly to enact a school funding system that is "thorough and efficient." The latest ruling occurred on March 16, 2003. The Supreme Court has foreclosed further proceedings in the case, essentially ending the DeRolph case from their perspective. It is not known, what effect, if any, ongoing litigation would have on future state funding.

With state funding accounting for approximately half of the District's revenue, the economic plight of the State causes concern for the District. In an attempt to attract more businesses, Ohio has started to phase out the local personal property tax charged to businesses for equipment, machinery, furniture, fixtures and inventory. This local property tax is being replaced with the statewide CAT tax which is based on sales receipts. While local tax districts are being held harmless for five years, this revenue source will be phased out through fiscal year 2018. Due to the originality of the CAT tax and the length of time involved in the phase out, the effects of this change on the District remains to be seen.

In conclusion, the budgeting and internal controls utilized by the District are well regarded. The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support a quality educational program.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mrs. Tracy Knauer, Treasurer, James A. Garfield Local School District, 10235 State Route 88, Garrettsville, Ohio 44231.

BASIC
FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,206,487
Receivables:	
Taxes	4,868,749
Accounts	513
Intergovernmental	98,570
Prepayments.	30,259
Materials and supplies inventory	41,198
Capital assets:	
Land.	118,773
Depreciable capital assets, net	7,963,921
Total capital assets, net	8,082,694
 Total assets.	 15,328,470
Liabilities:	
Accounts payable.	17,260
Accrued wages and benefits	1,170,958
Pension obligation payable.	275,248
Intergovernmental payable	61,577
Deferred revenue	4,321,079
Accrued interest payable	45,346
Long-term liabilities:	
Due within one year.	306,072
Due in more than one year	6,388,892
 Total liabilities	 12,586,432
Net Assets:	
Invested in capital assets, net of related debt.	1,979,183
Restricted for:	
Debt service.	256,064
Federally funded programs	13,896
Student activities	32,273
Other purposes	68,701
Unrestricted	391,921
 Total net assets	 \$ 2,742,038

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 5,777,371	\$ 686,012	\$ 81,122	\$ -	\$ (5,010,237)
Special	1,013,825	-	246,189	-	(767,636)
Adult/continuing	2,900	-	2,900	-	-
Other	91,982	-	18,597	-	(73,385)
Support services:					
Pupil	554,467	-	60,797	-	(493,670)
Instructional staff	410,817	-	157,939	-	(252,878)
Board of education	36,062	-	-	-	(36,062)
Administration	1,130,118	37,092	35,354	-	(1,057,672)
Fiscal	305,221	-	-	-	(305,221)
Operations and maintenance	1,304,010	-	-	-	(1,304,010)
Pupil transportation	931,954	-	-	-	(931,954)
Central	43,834	39,519	5,335	-	1,020
Operation of non-instructional services:					
Non-instructional services	23,557	-	666	17,664	(5,227)
Food service operations	570,321	344,575	216,897	-	(8,849)
Extracurricular activities	418,139	96,708	4,217	-	(317,214)
Interest and fiscal charges	342,010	-	-	-	(342,010)
Totals	\$ 12,956,588	\$ 1,203,906	\$ 830,013	\$ 17,664	(10,905,005)

General Revenues:

Property taxes levied for:	
General purposes	4,284,031
Debt service	439,762
Grants and entitlements not restricted to specific programs	6,328,136
Investment earnings	104,262
Miscellaneous	48,664
Total general revenues	11,204,855
Change in net assets	299,850
Net assets at beginning of year (restated)	2,442,188
Net assets at end of year	\$ 2,742,038

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,817,758	\$ 331,056	\$ 2,148,814
Receivables:			
Taxes	4,405,975	462,774	4,868,749
Accounts	-	513	513
Intergovernmental.	3,420	95,150	98,570
Interfund loans	8,544	-	8,544
Prepayments	29,966	293	30,259
Materials and supplies inventory.	24,036	17,162	41,198
Restricted assets:			
Equity in pooled cash and cash equivalents	57,673	-	57,673
Total assets.	<u>\$ 6,347,372</u>	<u>\$ 906,948</u>	<u>\$ 7,254,320</u>
Liabilities:			
Accounts payable	\$ 16,581	\$ 679	\$ 17,260
Accrued wages and benefits	1,069,657	101,301	1,170,958
Compensated absences payable.	17,870	-	17,870
Pension obligation payable	247,747	27,501	275,248
Intergovernmental payable	56,737	4,840	61,577
Interfund loan payable	-	8,544	8,544
Deferred revenue	4,159,332	434,894	4,594,226
Total liabilities	<u>5,567,924</u>	<u>577,759</u>	<u>6,145,683</u>
Fund Balances:			
Reserved for encumbrances.	269,705	33,967	303,672
Reserved for prepayments	29,966	293	30,259
Reserved for materials and supplies inventory.	24,036	17,162	41,198
Reserved for debt service.	-	206,918	206,918
Reserved for property tax unavailable for appropriation.	246,643	29,408	276,051
Reserved for budget stabilization	50,662	-	50,662
Reserved for school bus purchases.	7,011	-	7,011
Unreserved, undesignated, reported in:			
General fund.	151,425	-	151,425
Special revenue funds	-	41,441	41,441
Total fund balances	<u>779,448</u>	<u>329,189</u>	<u>1,108,637</u>
Total liabilities and fund balances	<u>\$ 6,347,372</u>	<u>\$ 906,948</u>	<u>\$ 7,254,320</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$	1,108,637
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			8,082,694
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	271,619	
Intergovernmental revenue		1,528	
Total			273,147
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(45,346)
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		(5,957,572)	
Compensated absences		(573,583)	
Capital lease obligation		(145,939)	
Total			(6,677,094)
Net assets of governmental activities		\$	<u><u>2,742,038</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,177,359	\$ 433,215	\$ 4,610,574
Tuition	667,491	-	667,491
Charges for services	1,853	344,575	346,428
Earnings on investments	103,239	1,023	104,262
Extracurricular	-	130,526	130,526
Classroom materials and fees	663	21,948	22,611
Donations and contributions	-	666	666
Other local revenues	45,415	50,338	95,753
Intergovernmental - Intermediate	-	400	400
Intergovernmental - State	6,250,405	125,872	6,376,277
Intergovernmental - Federal	22,918	773,165	796,083
Total revenues	<u>11,269,343</u>	<u>1,881,728</u>	<u>13,151,071</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,538,001	98,014	5,636,015
Special	764,018	235,015	999,033
Adult/Continuing education	-	2,900	2,900
Other	68,307	21,846	90,153
Support Services:			
Pupil	508,057	51,097	559,154
Instructional staff	238,896	159,782	398,678
Board of education	36,062	-	36,062
Administration	1,017,356	75,706	1,093,062
Fiscal	296,481	8,535	305,016
Operations and maintenance	1,319,315	-	1,319,315
Pupil transportation	908,772	-	908,772
Central	-	43,834	43,834
Operation of non-instructional services:			
Non-instructional services	-	23,557	23,557
Food service operations	-	573,902	573,902
Extracurricular activities	313,981	100,323	414,304
Capital outlay	145,939	-	145,939
Debt service:			
Principal retirement	53,937	215,000	268,937
Interest and fiscal charges	2,120	270,166	272,286
Total expenditures	<u>11,211,242</u>	<u>1,879,677</u>	<u>13,090,919</u>
Excess of revenues over expenditures	<u>58,101</u>	<u>2,051</u>	<u>60,152</u>
Other financing sources (uses):			
Transfers in	-	44	44
Transfers out	(44)	-	(44)
Sale of capital assets	1,250	-	1,250
Capital lease transaction	145,939	-	145,939
Total other financing sources (uses)	<u>147,145</u>	<u>44</u>	<u>147,189</u>
Net change in fund balances	205,246	2,095	207,341
Fund balances at beginning of year	<u>574,202</u>	<u>327,094</u>	<u>901,296</u>
Fund balances at end of year	<u>\$ 779,448</u>	<u>\$ 329,189</u>	<u>\$ 1,108,637</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$	207,341
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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. Depreciation expense exceeds capital outlays in the current period accordingly.</p>		
Capital asset additions	\$ 288,194	
Current year depreciation	<u>(349,910)</u>	
Total		(61,716)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(4,673)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Delinquent property taxes	113,219	
Intergovernmental	<u>(7,852)</u>	
Total		105,367
<p>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.</p>		
		268,937
<p>Capital lease transaction is recorded as revenue in the funds, however, on the statement of activities this is not reported as revenues as they increase liabilities on the statement of net assets.</p>		
		(145,939)
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.</p>		
Accrued interest	(22,478)	
Accreted interest on capital appreciation bonds	<u>(47,246)</u>	
Total		(69,724)
<p>Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>257</u>
Change in net assets of governmental activities	\$	<u>299,850</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,141,616	\$ 4,271,631	\$ 4,271,281	\$ (350)
Tuition.	648,275	668,626	667,603	(1,023)
Transportation fees.	1,939	2,000	1,853	(147)
Earnings on investments.	100,097	103,239	103,239	-
Classroom materials and fees.	679	700	663	(37)
Other local revenues.	3,163	3,262	3,242	(20)
Intergovernmental - State	6,062,453	6,252,769	6,252,495	(274)
Intergovernmental - Federal.	20,361	21,000	20,293	(707)
Total revenues.	<u>10,978,583</u>	<u>11,323,227</u>	<u>11,320,669</u>	<u>(2,558)</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,200,228	5,486,144	5,418,301	67,843
Special.	939,975	991,656	984,141	7,515
Other	67,831	71,560	57,595	13,965
Support Services:				
Pupil.	493,434	520,564	505,935	14,629
Instructional staff	233,755	246,607	231,073	15,534
Board of education	37,903	39,987	39,360	627
Administration.	1,058,969	1,117,193	1,053,791	63,402
Fiscal	289,714	305,643	298,995	6,648
Operations and maintenance.	1,320,641	1,393,252	1,325,217	68,035
Pupil transportation	861,226	908,577	890,244	18,333
Extracurricular activities.	307,546	324,455	311,336	13,119
Total expenditures	<u>10,811,222</u>	<u>11,405,638</u>	<u>11,115,988</u>	<u>289,650</u>
Excess of revenues over (under) expenditures.	<u>167,361</u>	<u>(82,411)</u>	<u>204,681</u>	<u>287,092</u>
Other financing sources (uses):				
Refund of prior year expenditure	4,900	4,900	4,707	(193)
Transfers (out)	(12,930)	(12,930)	(99)	12,831
Advances in.	10,000	10,000	9,704	(296)
Advances (out)	(10,000)	(10,000)	(7,395)	2,605
Sale of capital assets.	1,250	1,250	1,250	-
Total other financing sources (uses)	<u>(6,780)</u>	<u>(6,780)</u>	<u>8,167</u>	<u>14,947</u>
Net change in fund balance	160,581	(89,191)	212,848	302,039
Fund balance at beginning of year	1,264,526	1,264,526	1,264,526	-
Prior year encumbrances appropriated	111,894	111,894	111,894	-
Fund balances at end of year	<u>\$ 1,537,001</u>	<u>\$ 1,287,229</u>	<u>\$ 1,589,268</u>	<u>\$ 302,039</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 21,534
Total assets	\$ 21,534
Liabilities:	
Accounts payable.	\$ 70
Due to students.	21,464
Total liabilities	\$ 21,534

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District serves an area of approximately fifty-six square miles in Portage County including the Village of Garrettsville and portions of the surrounding townships of Freedom, Nelson, Hiram and Charlestown.

The District ranks as 349th largest by enrollment among the 615 public and community school districts in the state. The District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the District's four instructional/support facilities staffed by 66 non certificated and 105 certificated full time teaching personnel, including 9 administrators, who provide services to 1,605 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access to organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District is associated with the Stark Portage Area Computer Consortium and the Portage County Schools Consortium, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented below.

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a data consortium of 31 school districts. SPARCC was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the governments of these schools supports SPARCC based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months' financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in SPARCC because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 39th Street NW, Canton, Ohio 44709-2300.

Portage County School Consortium (the "Consortium")

Portage County School Consortium is an insurance group-purchasing consortium made up of fourteen school districts in Columbiana, Portage and Mahoning Counties. All member districts pay an insurance premium directly to the consortium. The District paid \$1,515,291 in the form of health care premiums to the Consortium for the current fiscal year.

Maplewood Career Center

The Maplewood Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of two representatives from each of the ten participating school districts' elected boards, which possess its own budgeting and taxing authority. The jointly governed organization was formed for the purpose of providing vocational instruction to juniors and seniors in the participating districts. To obtain financial information, write to the Maplewood Career Center, Michelle Seckman, who serves as Treasurer, at 7075 State Route 88, Ravenna, Ohio 44266-9131.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for food service operations; (c) for the accumulation of resources for, and the repayment, of, long-term debt principal, interest and related costs; and (d) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of 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. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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.

Agency funds do not report a measurement focus as they do not report operations.

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. Fiduciary funds also use the accrual basis of accounting.

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. Measurable means the amount of the transaction can be determined, and 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 District, available means expected to be received within sixty days of fiscal year-end.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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 fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported in the statement of activities as an expense with a like amount reported within the "Operating Grants, Contributions and Interest" program revenue account.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board during the year.

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$103,239, which includes \$17,747 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,000. The 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. It is the policy of the District to not capitalize interest costs incurred as part of construction.

All reported capital assets except 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 <u>Estimated Lives</u>
Land improvements	5 years
Buildings	30 - 50 years
Furniture fixtures and equipment	5 - 20 years
Vehicles	5 - 20 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 activities column on the statement of net assets.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

The 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 employee's rights to receive compensation are attributable to services already rendered and it is probable that the 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 payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the 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, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, school bus purchases, debt service, materials and supplies inventory, prepayments, budget stabilization and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets 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 the amount received for budget stabilization and school bus purchases. See Note 17 for details.

Q. Interfund Activity

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

R. 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 2006.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Restatement of Net Assets

The District has presented a restatement of net assets in order to record the accreted interest on the capital appreciation bonds issued as part of the series 1999 general obligations bonds, as disclosed in Note 10.A. The restatement had the following effect on the governmental activities net assets:

	<u>Governmental Activities</u>
Net Assets, June 30, 2005	\$ 2,627,522
Correction to accreted interest	<u>(185,334)</u>
Restated Net Assets, June 30, 2005	<u>\$ 2,442,188</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 3,791
School Net Professional Development	27
Poverty Aid	26
Title I	1,190
Title V	678
Improving Teacher Quality	158
Miscellaneous Federal Grants	1,149

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys 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 District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$416,699, which is exclusive of repurchase agreements and Star Ohio. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$398,399 of the District's bank balance of \$600,663 was exposed to custodial risk as discussed below, while \$202,264 was covered by Federal Deposit Insurance Corporation.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase Agreement	\$ 110,309	\$ 110,309
STAR Ohio	<u>1,701,013</u>	<u>1,701,013</u>
	<u>\$ 1,811,322</u>	<u>\$ 1,811,322</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio a AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 110,309	6.09%
STAR Ohio	<u>1,701,013</u>	<u>93.91%</u>
	<u>\$1,811,322</u>	<u>100.00%</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 416,699
Investments	<u>1,811,322</u>
Total	<u>\$ 2,228,021</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,206,487
Agency fund	<u>21,534</u>
Total	<u>\$ 2,228,021</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor special revenue fund	\$ 8,544

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 44

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, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES – (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments 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 semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance has been recorded as revenue.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$246,643 in the general fund and \$29,408 in a nonmajor fund. The amount available as an advance at June 30, 2005, was \$340,566 in the general fund and \$40,390 in a nonmajor fund.

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$142,405,134	90.04	\$145,901,345	92.23
Public utility personal	6,534,400	4.13	5,347,720	3.38
Tangible personal property	<u>9,226,880</u>	<u>5.83</u>	<u>6,941,310</u>	<u>4.39</u>
Total	<u>\$158,166,414</u>	<u>100.00</u>	<u>\$158,190,375</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 70.23		\$ 70.23	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables reported on the statement of net assets follows:

<u>Major Fund:</u>	
General	\$ 3,420
<u>Nonmajor funds:</u>	
IDEA B	67,600
Title I	16,227
Improving Teacher Quality	<u>11,323</u>
Total Intergovernmental receivable	<u><u>\$ 98,570</u></u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

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PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 118,773	\$ -	\$ -	\$ 118,773
Total capital assets, not being depreciated	<u>118,773</u>	<u>-</u>	<u>-</u>	<u>118,773</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	240,774	-	-	240,774
Buildings	10,163,991	-	-	10,163,991
Furniture, fixtures and equipment	789,988	192,787	(49,009)	933,766
Vehicles	<u>993,257</u>	<u>95,407</u>	<u>(51,908)</u>	<u>1,036,756</u>
Total capital assets, being depreciated	<u>12,188,010</u>	<u>288,194</u>	<u>(100,917)</u>	<u>12,375,287</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(240,774)	-	-	(240,774)
Buildings	(2,729,006)	(197,474)	-	(2,926,480)
Furniture, fixtures and equipment	(557,653)	(61,665)	48,607	(570,711)
Vehicles	<u>(630,267)</u>	<u>(90,771)</u>	<u>47,637</u>	<u>(673,401)</u>
Total accumulated depreciation	<u>(4,157,700)</u>	<u>(349,910)</u>	<u>96,244</u>	<u>(4,411,366)</u>
Total capital assets being depreciated, net	<u>8,030,310</u>	<u>(61,716)</u>	<u>(4,673)</u>	<u>7,963,921</u>
Governmental activities capital assets, net	<u>\$ 8,149,083</u>	<u>\$ (61,716)</u>	<u>\$ (4,673)</u>	<u>\$ 8,082,694</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 196,847
Special	4,597
<u>Support Services:</u>	
Pupil	4,813
Instructional Staff	7,153
Administration	20,068
Fiscal	681
Operations and Maintenance	21,325
Pupil Transportation	84,729
Extracurricular Activities	3,238
Food Service Operation	<u>6,459</u>
Total depreciation expense	<u>\$ 349,910</u>

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for copier equipment. During 2006, the District traded in the old leases for new capital leases. These lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of office equipment have been capitalized in the amount of \$145,939. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$53,937 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Year</u>	<u>Total</u>
2007	\$ 33,924
2008	33,924
2009	33,924
2010	33,924
2011	33,924
2012	<u>8,481</u>
Total	\$ 178,101
Interest	<u>(32,162)</u>
Present value	<u>\$ 145,939</u>

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The District has presented a restatement of long-term liabilities in order to accrete the interest due on the capital appreciation bonds. A restatement of net assets has been presented in Note 3.B. In total, the long-term liabilities have been increased from the June 30, 2005 balance of \$6,567,769 by the amount of accreted interest from the date of the issue through June 30, 2005, which is \$185,334, for a restated balance of \$6,753,103. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

	Restated Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
Governmental Activities:					
<u>General Obligation Bonds:</u>					
General obligation bonds 3.80%-5.0%	\$ 5,780,000	\$ -	\$ (215,000)	\$ 5,565,000	\$ -
Capital appreciation bonds 12.902%	<u>345,326</u>	<u>47,246</u>	<u>-</u>	<u>392,572</u>	<u>225,000</u>
Total general obligation bonds	<u>6,125,326</u>	<u>47,246</u>	<u>(215,000)</u>	<u>5,957,572</u>	<u>225,000</u>
<u>Other liabilities</u>					
Capital leases	53,937	145,939	(53,937)	145,939	23,434
Compensated absences	<u>573,840</u>	<u>123,899</u>	<u>(106,286)</u>	<u>591,453</u>	<u>57,638</u>
Total other liabilities	<u>627,777</u>	<u>269,838</u>	<u>(160,223)</u>	<u>737,392</u>	<u>81,072</u>
Governmental activities					
long-term liabilities	<u>\$ 6,753,103</u>	<u>\$ 317,084</u>	<u>\$ (375,223)</u>	<u>\$ 6,694,964</u>	<u>\$ 306,072</u>

General Obligation Bonds: During fiscal year 1999, the District issued bonds for improvement and construction of classroom facilities in the amount of \$6,899,992. Principal payments are due each year on December 1 until 2024. All bonds are general obligation bonds for which the full faith and credit of the District is pledged. These bonds will be paid from property taxes in the bond retirement debt service fund.

The issue is comprised of both current interest bonds, par value \$6,740,000, and capital appreciation bonds, par value \$159,992. For fiscal years 2007 and 2008 the bonds are capital appreciation bonds with an estimated interest rate of 12.902%. The remaining years; interest payments will be based on increasing yearly interest rates ranging from 3.25% up to 5.00% in 2009 and beyond. The present value (as of the issue date) reported in the statement of net assets at June 30, 2006 was \$392,572. A total of \$232,580 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

Compensated Absences: Compensated absences will be paid from the fund from which the employees' salaries are paid. In prior years this has primarily been the general fund.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund. See Note 9 for details.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2006, are as follows:

Year Ended	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ -	\$ 265,920	\$ 265,920	\$ 85,885	\$ 139,115	\$ 225,000
2008	-	265,920	265,920	74,107	145,893	220,000
2009	225,000	261,139	486,139	-	-	-
2010	235,000	251,364	486,364	-	-	-
2011	245,000	241,041	486,041	-	-	-
2012 - 2016	1,385,000	1,026,566	2,411,566	-	-	-
2017 - 2021	1,745,000	656,165	2,401,165	-	-	-
2022 - 2025	1,730,000	178,500	1,908,500	-	-	-
Total	<u>\$ 5,565,000</u>	<u>\$ 3,146,615</u>	<u>\$ 8,711,615</u>	<u>\$ 159,992</u>	<u>\$285,008</u>	<u>\$ 445,000</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$8,748,468 (including available funds of \$236,326) and an unvoted debt margin of \$158,190.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty percent of the total sick leave accumulation, up to a maximum accumulation of seventy-five days for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Group Health and Dental Insurance

Health, life, dental and other group insurance is offered to employees as a fringe benefit. Employer and employee contributions to premium are determined by negotiated agreements with employee labor unions (currently, single and family coverage is 100% Board paid; the employee co-pay for family medical coverage is 20% of the difference between the family medical plan and single medical plan; prescription and dental coverage premiums are 100% Board paid.).

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District participates in the Portage County School Consortium (the "Consortium"), which is a cooperative entity among 14 educational-service providers formed in 1981 to facilitate effective risk management and to share the cost of providing various insurance coverages and employee benefits. The Health and Welfare Trust is organized under the provisions of Section 501(c) (9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. The insurance agreement with the Consortium also provides that the Consortium will reinsure through commercial companies for claims over \$150,000 per employee. Although the District does not participate in the day-to-day management of the Consortium, one of its administrators serves as a trustee of the Consortium's governing board, as provided in the Consortium's enabling authority. Although the District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the Consortium become depleted, it is the opinion of management that the assets of the Consortium are sufficient to meet its claims.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2006, the District contracted with the following carriers for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Ohio School Plan	General Liability	\$0
Indiana	Automobile	\$250/\$500
Indiana	Property Insurance	\$2,500

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

B. Workers' Compensation Group Rating Plan

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (see Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 11.70 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$188,828, \$173,354, and \$160,348, 44 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 13 - PENSION PLANS - (Continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$662,118, \$651,545 and \$636,123; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$11,968 made by the District and \$24,653 made by the plan members.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified 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.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of 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 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$110,043 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 2.30 percent of covered payroll, a decrease of 1.13 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$103,986 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 212,848
Net adjustment for revenue accruals	(51,326)
Net adjustment for expenditure accruals	(381,417)
Net adjustment for other sources/uses	138,978
Adjustment for encumbrances	<u>286,163</u>
GAAP basis	<u>\$ 205,246</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 17 - STATUTORY RESERVES – (Continued)

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ (139,192)	\$ -	\$ 50,662
Current year set-aside requirement	226,069	226,069	-
Qualifying disbursements	<u>(216,985)</u>	<u>(632,426)</u>	<u>-</u>
Total	<u>\$ (130,108)</u>	<u>\$ (406,357)</u>	<u>\$ 50,662</u>
Balance carried forward to FY 2007	<u>\$ (130,108)</u>	<u>\$ -</u>	<u>\$ 50,662</u>

In addition to the above statutory reserves, the District has \$7,011 restricted for school bus purchases. A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	\$ 7,011
Amount restricted for budget stabilization	<u>50,662</u>
Total restricted assets	<u>\$ 57,673</u>

The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the District had offsets and/or qualifying disbursement during the year that reduced set-aside amounts below zero, these extra amounts may only be used to reduce the set-aside requirements of future years for the purchase of textbooks and/or instructional materials. Negative amounts are therefore not presented as being carried forward to the next fiscal year for the other set-asides. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

**James A. Garfield
Local School District**

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Report Letters

June 30, 2006

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 17, 2006

To the Board of Education
James A. Garfield Local School District
Portage County, Ohio

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of James A. Garfield Local School District as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered James A. Garfield Local School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of by the Board of Education, management, and federal awarding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

Kea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 17, 2006

To the Board of Education
James A. Garfield Local Schools District
Portage County, Ohio

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

Compliance

We have audited the compliance of James A. Garfield Local Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to the School District's major program for the year ended June 30, 2006. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of James A. Garfield Local School District's management. Our responsibility is to express an opinion on James A. Garfield Local School'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 the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about James A. Garfield Local School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of James A. Garfield Local School's compliance with those requirements.

In our opinion, James A. Garfield Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major program for the year ended June 30, 2006. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards – Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the James A. Garfield Local Schools as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 17, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Expenditures
U. S. Department of Education (Passed Through Ohio Department of Education):					
Title I	84.010	C1-S1-2005	\$ 15,174	\$ 24,473	0
Title I	84.010	C1-S1-2006	119,726	113,088	0
Total Title I			134,900	137,561	0
<i>Special Education Cluster</i>					
IDEA-B	84.027	6B-PB-2005	4,000	688	0
IDEA-B	84.027	6B-SD-2006	8,703	8,950	0
IDEA-B	84.027	6B-SF-2005	27,544	37,515	0
IDEA-B	84.027	6B-SF-2006	256,721	258,015	0
Total IDEA-B			296,968	305,168	0
Preschool Grants	84.173	PG-S1-2006P	4,857	4,857	0
Preschool Grants	84.173	PG-S1-2005P	2,819	2,819	0
Total Preschool Grants			7,676	7,676	0
<i>Total Special Education Cluster</i>			304,644	312,844	0
Title IV-A Safe and Drug-Free Schools	84.186	DR-S1-2005	3,668	3,487	0
Title IV-A Safe and Drug-Free Schools	84.186	DR-S1-2006	7,402	7,402	0
Total Safe and Drug-Free Schools and Communities			11,070	10,889	0
Title V	84.298	C2-S1-2005	7,132	6,774	0
Title V	84.298	C2-S1-2006	5,263	5,263	0
Total Title V			12,395	12,037	0
Title II-D {C}	84.318	TJ-S1-2005	(505)	0	0
Title II-D	84.318	TJ-S1-2006	4,062	4,062	0
Total Title II-D			3,557	4,062	0
Title II-A	84.367	TR-S1-2005	9,542	14,022	0
Title II-A	84.367	TR-S1-2006	56,625	53,580	0
Total Title II-A			66,167	67,602	0
Total Department of Education			532,733	544,995	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Food Distribution Program (A) (B)	10.550		24,591	0	24,591
Nutrition Cluster:					
School Breakfast Program (B)	10.553		18,255	18,255	0
National School Lunch Program (B)	10.555		115,850	115,850	0
Total Nutrition Cluster			134,105	134,105	0
Total Department of Agriculture			158,696	134,105	24,591
Total Federal Assistance			\$ 691,429	\$ 679,100	24,591

- (A) Government commodities are reported at the fair market value of the commodities received and disbursed.
(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.
(C) Refunded Receipt

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS
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(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)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(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?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Special Education Cluster #84.027 & 84.173
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None noted.



Mary Taylor, CPA
Auditor of State

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 25, 2007**