



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

James A. Garfield Local School District
Portage County
10235 State Route 88
Garrettsville, Ohio 44231

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 James A. Garfield Local School District, Portage County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. 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.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and No-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the schedule of receipts and expenditures of federal awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

January 4, 2005

James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

This discussion and analysis of James A. Garfield Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Since this is the first year of financial presentation under Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", some analyses with prior year data are not available. Future Management Discussion and Analyses will be comparative.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets of governmental activities decreased \$341,537, representing a 16.1 percent decrease from 2004.
- General revenues accounted for \$9,933,747 in revenue or 86.4 percent of all revenues. Program revenues in the form of charges for services, operating and capital grants, contributions and interest accounted for \$1,567,771 or 13.6 percent of total revenues of \$11,501,518.
- The School District had \$11,843,055 in expenses related to governmental activities; only \$1,567,771 of these expenses was offset by program specific revenues. General revenues of \$9,933,747 were not adequate to provide for these programs.
- At the end of the current fiscal year the governmental funds reported a combined ending fund balance of \$75,087, a decrease of \$291,001 from the prior fiscal year. The largest decrease reported within a fund was to the general fund, which reported a decrease in fund balance of \$252,046.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand James A. Garfield Local School 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 School District, presenting both an aggregate view of the School 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 present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of James A. Garfield Local School District, the general fund and the debt service fund are the most significant funds.

James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the statement of net assets and the statement of activities, the School Districts' activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. Fund financial reports provide detailed information about the general and debt service funds, all of which are considered major funds. Data from the other funds are combined into a single, aggregated presentation.

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

James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
 Unaudited

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. This is the School District's first year for reporting government-wide financial statements using the accrual basis of accounting, therefore a comparison with the prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

Table 1 provides a summary of the School District's net assets for 2004:

| | <i>Governmental Activities</i> |
|--|------------------------------------|
| Assets | |
| <i>Current and other assets</i> | \$ 5,240,260 |
| <i>Capital assets, net of depreciation</i> | 8,476,687 |
| <i>Total assets</i> | <u>13,716,947</u> |
| Liabilities | |
| <i>Current and other liabilities</i> | 5,111,010 |
| <i>Long-term liabilities:</i> | |
| <i>Due within one year</i> | 373,518 |
| <i>Due in more than one year</i> | 6,448,452 |
| <i>Total liabilities</i> | <u>11,932,980</u> |
| Net Assets | |
| <i>Invested in capital assets, net of related debt</i> | 2,261,908 |
| <i>Restricted</i> | 278,168 |
| <i>Unrestricted</i> | (756,109) |
| <i>Total net assets</i> | <u>\$ 1,783,967</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the School District's assets exceeded liabilities by \$1,783,967.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2004. Capital assets include land, land improvements, buildings, furniture, fixtures, and equipment, and vehicles, and are used to provide services to students and are not available for future spending. Although the School 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 School District's net assets, \$278,168 or 15.59 percent, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$206,913, or 74.38 percent, is restricted for debt service payments; \$937, or .34 percent, is restricted for capital projects; and \$70,318, or 25.28 percent, is restricted for other purposes. The remaining portion of net assets is a deficit balance of \$756,109 indicating insufficient assets to be used to meet the government's ongoing obligations to students and staff.

James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

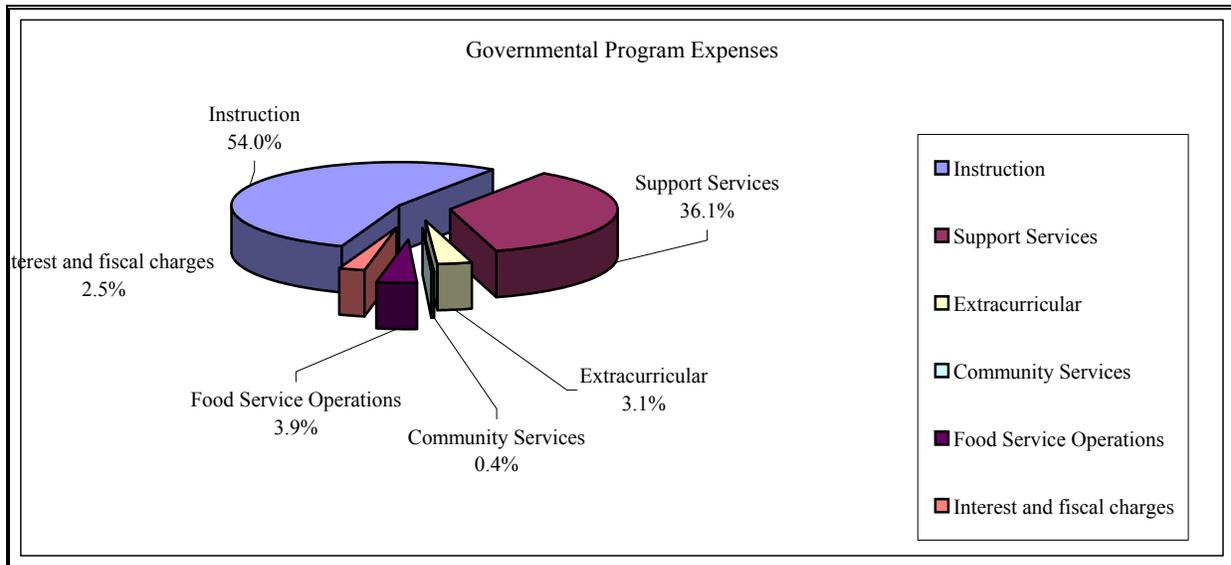
Table 2 shows change in net assets for fiscal year 2004.

Table 2
Change in Net Assets

| | <u>Governmental</u> <u>Activities</u> |
|---|--|
| Revenues | |
| <i>Program revenues:</i> | |
| <i>Charges for services</i> | \$ 873,457 |
| <i>Operating grants, contributions and interest</i> | 680,091 |
| <i>Capital grants and contributions</i> | 14,223 |
| <i>General revenues:</i> | |
| <i>Property taxes</i> | 3,849,400 |
| <i>Grants and entitlements</i> | 6,042,434 |
| <i>Investment earnings</i> | 17,906 |
| <i>Miscellaneous</i> | 6,058 |
| <i>Gain on sale of capital assets</i> | 17,949 |
| <i>Total revenues</i> | <u>11,501,518</u> |
| Program Expenses | |
| <i>Instruction:</i> | |
| <i>Regular</i> | 5,651,414 |
| <i>Special</i> | 611,368 |
| <i>Adult/continuing</i> | 4,211 |
| <i>Other</i> | 123,941 |
| <i>Support services:</i> | |
| <i>Pupils</i> | 462,854 |
| <i>Instructional staff</i> | 443,952 |
| <i>Board of education</i> | 32,492 |
| <i>Administration</i> | 1,113,147 |
| <i>Fiscal</i> | 258,605 |
| <i>Operation and maintenance of plant</i> | 1,109,767 |
| <i>Pupil transportation</i> | 814,674 |
| <i>Central</i> | 46,078 |
| <i>Operation non-instructional services:</i> | |
| <i>Food service operations</i> | 471,564 |
| <i>Community services</i> | 47,224 |
| <i>Extracurricular activities</i> | 361,317 |
| <i>Interest and fiscal charges</i> | 290,447 |
| <i>Total expenses</i> | <u>11,843,055</u> |
| <i>Change in net assets</i> | (341,537) |
| <i>Net assets beginning of year - restated</i> | <u>2,125,504</u> |
| <i>Net assets end of year</i> | <u>\$ 1,783,967</u> |

James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
 Unaudited

Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years a comparative analysis of government-wide data will be presented.



Governmental Activities

Several revenue sources fund our governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$3.8 million in 2004. General revenues from grants and entitlements, such as the school foundation program, generated over \$6 million. With the combination of taxes and intergovernmental funding comprising approximately 86.0 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

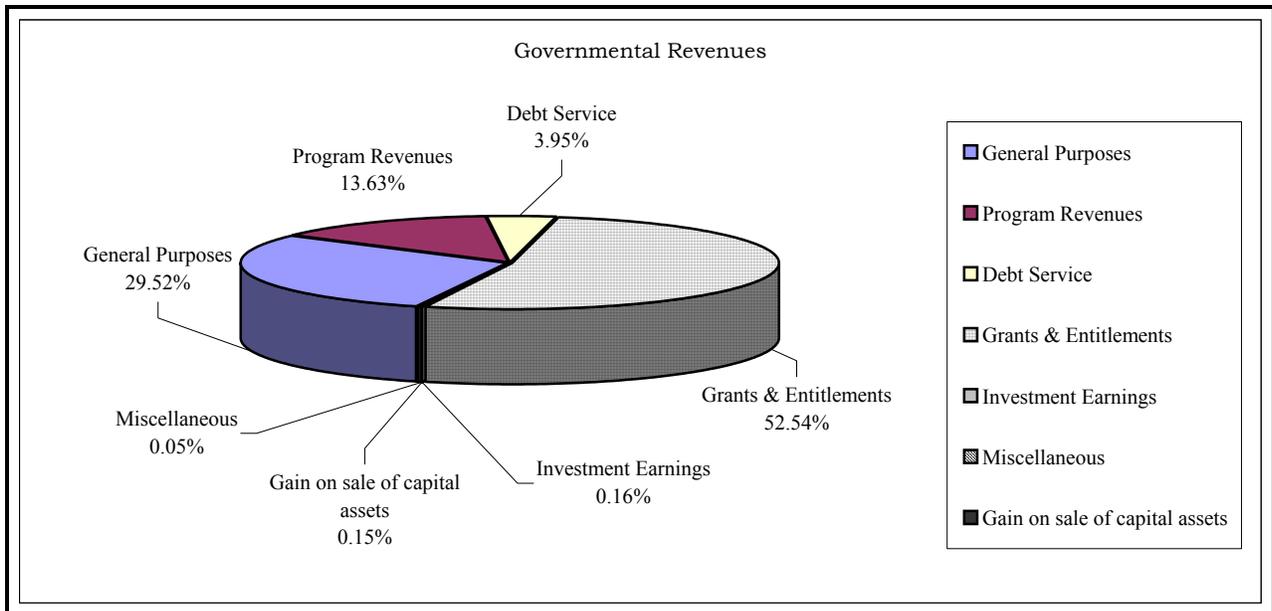
Costs directly related to the instruction of students comprised 54 percent of governmental program expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2003 have not been presented since that information is not available. In future years a comparative analysis of government-wide data will be presented.

James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
 Unaudited

Table 3
 Governmental Activities

| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
|--|-----------------------------------|---------------------------------|
| Program Expenses | | |
| <i>Instruction:</i> | | |
| Regular | \$ 5,651,414 | \$ (5,145,684) |
| Special | 611,368 | (365,832) |
| Adult/continuing | 4,211 | (911) |
| Other | 123,941 | (115,395) |
| <i>Support services:</i> | | |
| Pupils | 462,854 | (421,876) |
| Instructional staff | 443,952 | (351,812) |
| Board of education | 32,492 | (32,492) |
| Administration | 1,113,147 | (1,053,871) |
| Fiscal | 258,605 | (258,605) |
| Operation and maintenance of plant | 1,109,767 | (1,109,767) |
| Pupil transportation | 814,674 | (800,451) |
| Central | 46,078 | (7,994) |
| <i>Operation non-instructional services:</i> | | |
| Food service operations | 471,564 | (43,236) |
| Community services | 47,224 | (2,490) |
| Extracurricular activities | 361,317 | (274,421) |
| Interest and fiscal charges | 290,447 | (290,447) |
| Total | \$ 11,843,055 | \$ (10,275,284) |



James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
 Unaudited

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$11,490,917, and total expenditures and other financing uses were \$11,781,918. The most significant change in fund balance occurred in the general fund with a decrease in fund balance of \$252,046. Although this decrease was significantly lower as compared to the decrease in fund balance reported for fiscal year 2003 in the amount of \$898,517, revenues of the School District are still insufficient to cover the expenditures incurred for the programs provided.

General Fund Budgeting Highlights

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

During fiscal year 2004, the School District amended its general fund budget, however not significantly. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue and other financing sources estimate was \$9,719,064, which was slightly higher than the original budget estimate of \$9,669,307. Actual revenues reported were only \$104,420 high than the final estimate. The final budget did not require any changes since these additional revenues were not appropriated for in the current year.

The original expenditures and other financing uses estimate of \$10,681,128 was revised slightly over the fiscal year with a final appropriated amount equal to \$10,627,174. Actual expenditures and other financing uses reported were \$239,034 less than the final appropriation resolution passed by the Board. There were no significant events that caused this difference.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$8,476,687 invested in capital assets. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003:

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|--------------|
| | <u>2004</u> | <u>2003</u> |
| Land | \$ 118,773 | \$ 118,773 |
| Buildings | 7,704,916 | 7,883,135 |
| Furniture, fixtures and equipment | 218,050 | 299,840 |
| Vehicles | 434,948 | 453,220 |
| | <hr/> | <hr/> |
| Total capital assets | \$ 8,476,687 | \$ 8,754,968 |
| | <hr/> | <hr/> |

James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004
 Unaudited

The most significant purchases by the School District during the year was for a new school bus for the transportation of students. The total decrease in the value of assets as compared to the prior year was primarily due to the recognition of current year depreciation expense of \$362,154. See Note 8 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2004 the School District had \$6,214,779 in outstanding debt and capital leases with \$220,850 due within one year. This balance reflected a reduction of \$214,892 from the previous year's balance of \$6,429,671. Table 5 summarizes the bonds and capital lease obligations outstanding as fiscal year end:

*Table 5
 Outstanding Debt and Capital Leases, at Fiscal Year End*

| | <i>Governmental Activities 2004</i> | <i>Governmental Activities 2003</i> |
|---------------------------------|---|---|
| <i>School improvement bonds</i> | \$ 6,144,992 | \$ 6,344,992 |
| <i>Capital lease</i> | <u>69,787</u> | <u>84,679</u> |
| <i>Total outstanding</i> | <u><u>6,214,779</u></u> | <u><u>6,429,671</u></u> |

At June 30, 2004, the School District's overall legal debt margin was \$7,881,352 with an unvoted debt margin of \$153,473. The School District is not currently rated by Standard & Poor's or Moody's Investors Service. See Note 14 and 15, to the basic financial statements for details on the School District's debt.

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. See Note 17 to the basic financial statements for more on this contingent matter.

James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

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

James A. Garfield Local School District

Statement of Net Assets

June 30, 2004

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Assets:</u> | |
| Equity in pooled cash and cash equivalents | \$ 1,163,147 |
| Cash and cash equivalents: | |
| In segregated accounts | 3,559 |
| Receivables: | |
| Taxes | 3,967,624 |
| Intergovernmental | 72,767 |
| Prepaid items | 9,679 |
| Inventory held for resale | 8,220 |
| Materials and supplies inventory | 15,264 |
| Capital assets: | |
| Land and construction in progress | 118,773 |
| Depreciable capital assets, net | 8,357,914 |
| Total assets | <u>13,716,947</u> |
| <u>Liabilities:</u> | |
| Accounts payable | 24,532 |
| Accrued wages | 1,111,606 |
| Intergovernmental payable | 293,682 |
| Accrued interest payable | 23,534 |
| Deferred revenue | 3,657,656 |
| Long-term liabilities: | |
| Due within one year | 373,518 |
| Due in more than one year | 6,448,452 |
| Total liabilities | <u>11,932,980</u> |
| <u>Net assets:</u> | |
| Invested in capital assets, net of related debt | 2,261,908 |
| Restricted for: | |
| Capital outlay | 937 |
| Debt service | 206,913 |
| Other purposes | 70,318 |
| Unrestricted | <u>(756,109)</u> |
| Total net assets | <u>\$ 1,783,967</u> |

See accompanying notes to the basic financial statements.

James A. Garfield Local School District

Statement of Activities

For the Fiscal Year Ended June 30, 2004

| | Expenses | Program Revenues | | Capital Grants, Contributions and Interest | Net (Expense) Revenues and Changes in Net Assets |
|---|----------------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Grants, Contributions and Interest | | |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 5,651,414 | \$ 406,657 | \$ 99,073 | \$ - | \$ (5,145,684) |
| Special | 611,368 | 4,658 | 240,878 | - | (365,832) |
| Adult/continuing | 4,211 | - | 3,300 | - | (911) |
| Other | 123,941 | - | 8,546 | - | (115,395) |
| Support services: | | | | | |
| Pupils | 462,854 | - | 40,978 | - | (421,876) |
| Instructional staff | 443,952 | - | 92,140 | - | (351,812) |
| Board of education | 32,492 | - | - | - | (32,492) |
| Administration | 1,113,147 | 39,678 | 19,598 | - | (1,053,871) |
| Fiscal | 258,605 | - | - | - | (258,605) |
| Operation and maintenance of plant | 1,109,767 | - | - | - | (1,109,767) |
| Pupil transportation | 814,674 | - | - | 14,223 | (800,451) |
| Central | 46,078 | 32,438 | 5,646 | - | (7,994) |
| Operation of non-instructional services: | | | | | |
| Food service operations | 471,564 | 303,130 | 125,198 | - | (43,236) |
| Community services | 47,224 | - | 44,734 | - | (2,490) |
| Extracurricular activities | 361,317 | 86,896 | - | - | (274,421) |
| Interest and fiscal charges | 290,447 | - | - | - | (290,447) |
| Total governmental activities | \$ 11,843,055 | \$ 873,457 | \$ 680,091 | \$ 14,223 | (10,275,284) |
| General Revenues: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes | | | | | 3,394,935 |
| Debt service | | | | | 454,465 |
| Grants and entitlements not restricted to specific programs | | | | | 6,042,434 |
| Investment earnings | | | | | 17,906 |
| Miscellaneous | | | | | 6,058 |
| Gain on sale of capital assets | | | | | 17,949 |
| Total general revenues | | | | | 9,933,747 |
| Change in net assets | | | | | (341,537) |
| Net assets beginning of year, as restated Note 3 | | | | | 2,125,504 |
| Net assets end of year | | | | | \$ 1,783,967 |

See accompanying notes to the basic financial statements.

James A. Garfield Local School District

Balance Sheet

Governmental Funds

June 30, 2004

| | General Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------------|--------------------------------|
| <u>Assets:</u> | | | | |
| Equity in pooled cash and cash equivalents | \$ 776,910 | \$ 194,109 | \$ 141,466 | \$ 1,112,485 |
| Cash and cash equivalents: | | | | |
| In segregated accounts | - | - | 3,559 | 3,559 |
| Receivables: | | | | |
| Taxes | 3,510,388 | 457,236 | - | 3,967,624 |
| Intergovernmental | - | - | 72,767 | 72,767 |
| Interfund | 10,103 | - | - | 10,103 |
| Inventory held for resale | - | - | 8,220 | 8,220 |
| Materials and supplies inventory | 13,372 | - | 1,892 | 15,264 |
| Prepaid items | 9,679 | - | - | 9,679 |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 50,662 | - | - | 50,662 |
| Total assets | \$ 4,371,114 | \$ 651,345 | \$ 227,904 | \$ 5,250,363 |
| <u>Liabilities:</u> | | | | |
| Accounts payable | \$ 13,843 | \$ - | \$ 10,689 | \$ 24,532 |
| Accrued wages | 1,016,407 | - | 95,199 | 1,111,606 |
| Interfund payable | - | - | 10,103 | 10,103 |
| Intergovernmental payable | 181,215 | - | 7,196 | 188,411 |
| Deferred revenue | 3,385,029 | 437,565 | 18,030 | 3,840,624 |
| Total liabilities | 4,596,494 | 437,565 | 141,217 | 5,175,276 |
| <u>Fund balances:</u> | | | | |
| Reserved for: | | | | |
| Encumbrances | 257,078 | - | 26,165 | 283,243 |
| Budget stabilization | 50,662 | - | - | 50,662 |
| Property taxes | 125,359 | 19,671 | - | 145,030 |
| Unreserved, undesignated, reported in: | | | | |
| General fund | (658,479) | - | - | (658,479) |
| Special revenue funds | - | - | 60,522 | 60,522 |
| Debt service fund | - | 194,109 | - | 194,109 |
| Total fund balances | (225,380) | 213,780 | 86,687 | 75,087 |
| Total liabilities and fund balances | \$ 4,371,114 | \$ 651,345 | \$ 227,904 | \$ 5,250,363 |

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

| | | |
|--|-----------------|----------------------------|
| Total governmental fund balances | | \$ 75,087 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 8,476,687 |
| Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Property taxes | \$ 164,938 | |
| Intergovernmental | <u>18,030</u> | |
| | | 182,968 |
| Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and are therefore not reported in the funds. | | (105,271) |
| Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds: | | |
| General obligation bonds | \$ (6,144,992) | |
| Compensated absences | (607,191) | |
| Capital leases | (69,787) | |
| Accrued interest payable | <u>(23,534)</u> | |
| Total | | <u>(6,845,504)</u> |
| Net assets of governmental activities | | <u><u>\$ 1,783,967</u></u> |

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

| | General Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------------|--------------------------------|
| <u>Revenues:</u> | | | | |
| Taxes | \$ 3,330,294 | \$ 451,772 | \$ - | \$ 3,782,066 |
| Intergovernmental | 6,001,821 | 54,836 | 700,604 | 6,757,261 |
| Interest | 17,906 | - | 254 | 18,160 |
| Tuition and fees | 394,520 | - | 16,795 | 411,315 |
| Extracurricular activities | - | - | 107,485 | 107,485 |
| Gifts and donations | - | - | 6,713 | 6,713 |
| Charges for services | - | - | 294,627 | 294,627 |
| Miscellaneous | 6,058 | - | 60,030 | 66,088 |
| Total revenues | <u>9,750,599</u> | <u>506,608</u> | <u>1,186,508</u> | <u>11,443,715</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,247,864 | - | 145,373 | 5,393,237 |
| Special | 416,511 | - | 232,691 | 649,202 |
| Adult/continuing | - | - | 4,211 | 4,211 |
| Other | 112,687 | - | 11,254 | 123,941 |
| Support services: | | | | |
| Pupils | 424,444 | - | 46,417 | 470,861 |
| Instructional staff | 346,716 | - | 91,767 | 438,483 |
| Board of education | 32,492 | - | - | 32,492 |
| Administration | 1,001,227 | - | 70,998 | 1,072,225 |
| Fiscal | 246,947 | 8,925 | - | 255,872 |
| Operation and maintenance of plant | 1,081,491 | - | - | 1,081,491 |
| Pupil transportation | 730,401 | - | 195 | 730,596 |
| Central | - | - | 46,078 | 46,078 |
| Operation of non-instructional services: | | | | |
| Food Service operations | - | - | 457,710 | 457,710 |
| Community services | - | - | 47,224 | 47,224 |
| Extracurricular activities | 256,494 | - | 102,703 | 359,197 |
| Capital outlay | 93,443 | - | - | 93,443 |
| Debt service: | | | | |
| Principal retirement | 14,892 | 200,000 | - | 214,892 |
| Interest and fiscal charges | 4,872 | 286,208 | - | 291,080 |
| Total expenditures | <u>10,010,481</u> | <u>495,133</u> | <u>1,256,621</u> | <u>11,762,235</u> |
| Excess of revenues over (under) expenditures | <u>(259,882)</u> | <u>11,475</u> | <u>(70,113)</u> | <u>(318,520)</u> |
| <u>Other financing sources (uses):</u> | | | | |
| Proceeds from sale of capital assets | 27,519 | - | - | 27,519 |
| Transfers in | - | - | 19,683 | 19,683 |
| Transfers out | (19,683) | - | - | (19,683) |
| Total other financing sources (uses) | <u>7,836</u> | <u>-</u> | <u>19,683</u> | <u>27,519</u> |
| Net change in fund balances | (252,046) | 11,475 | (50,430) | (291,001) |
| Fund balances beginning of year, as restated | 26,666 | 202,305 | 137,117 | 366,088 |
| Fund balances (deficits) end of year | <u>\$ (225,380)</u> | <u>\$ 213,780</u> | <u>\$ 86,687</u> | <u>\$ 75,087</u> |

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ (291,001)

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

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

In the current period, these amounts are:

| | | |
|--|-----------|-----------|
| Capital asset additions | \$ 93,443 | |
| Depreciation expense | (362,154) | |
| | | |
| Excess of capital outlay over depreciation expense | | (268,711) |

The sale of capital assets results in an other financing source in the governmental funds. In the government-wide statement, however, the assets sold had been capitalized previously and thus have a "book value" that needs to be removed. The difference between the proceeds and the book value is the gain or loss that is recognized in the statement of activities. This adjustment reduces the proceeds by the book value of the asset sold.

| | | |
|--------------------------|-----------|---------|
| Capital assets at cost | 113,803 | |
| Accumulated depreciation | (104,233) | |
| | | |
| Less book value | 9,570 | (9,570) |

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

| | | |
|---|-----------|--------|
| Property taxes | \$ 67,334 | |
| Intergovernmental | (27,480) | |
| | | |
| Net change in deferred revenues during the year | | 39,854 |

Repayment of debt and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 214,892

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

| | | |
|----------------------------------|------------|----------|
| Increase in compensated absences | \$ (8,876) | |
| Increase in pension obligation | (18,758) | |
| Decrease in accrued interest | 633 | |
| | | |
| Total additional expenditures | | (27,001) |

Change in net assets of governmental activities \$ (341,537)

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|-------------------|-------------------|---|
| <u>Revenues:</u> | | | | |
| Taxes | \$ 3,174,386 | \$ 3,295,276 | \$ 3,325,114 | \$ 29,838 |
| Intergovernmental | 6,169,921 | 5,925,505 | 6,002,275 | 76,770 |
| Interest | 30,000 | 15,000 | 17,906 | 2,906 |
| Tuition and fees | 218,000 | 388,009 | 394,520 | 6,511 |
| Miscellaneous | 2,000 | 3,500 | 4,249 | 749 |
| Total revenues | <u>9,594,307</u> | <u>9,627,290</u> | <u>9,744,064</u> | <u>116,774</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,291,953 | 5,331,937 | 5,313,572 | 18,365 |
| Special | 395,333 | 409,167 | 406,573 | 2,594 |
| Other | 213,141 | 252,141 | 251,951 | 190 |
| Support services: | | | | |
| Pupils | 444,520 | 436,907 | 424,082 | 12,825 |
| Instructional staff | 399,882 | 371,333 | 359,487 | 11,846 |
| Board of education | 56,205 | 50,405 | 33,002 | 17,403 |
| Administration | 1,135,754 | 1,088,582 | 1,060,292 | 28,290 |
| Fiscal | 275,470 | 252,754 | 247,509 | 5,245 |
| Operation and maintenance of plant | 1,274,516 | 1,189,094 | 1,145,462 | 43,632 |
| Pupil transportation | 849,354 | 830,715 | 810,344 | 20,371 |
| Extracurricular activities | 240,000 | 266,639 | 258,153 | 8,486 |
| Total expenditures | <u>10,576,128</u> | <u>10,479,674</u> | <u>10,310,427</u> | <u>169,247</u> |
| Excess of revenues over (under) expenditures | <u>(981,821)</u> | <u>(852,384)</u> | <u>(566,363)</u> | <u>286,021</u> |
| <u>Other financing sources (uses):</u> | | | | |
| Proceeds from the sale of capital assets | - | 16,774 | 29,605 | 12,831 |
| Advances in | 75,000 | 75,000 | 49,815 | (25,185) |
| Advances out | (75,000) | (75,000) | (58,030) | 16,970 |
| Transfers out | (30,000) | (72,500) | (19,683) | 52,817 |
| Total other financing sources (uses) | <u>(30,000)</u> | <u>(55,726)</u> | <u>1,707</u> | <u>57,433</u> |
| Net change in fund balance | (1,011,821) | (908,110) | (564,656) | 343,454 |
| Fund balance at beginning of year | 760,332 | 760,332 | 760,332 | - |
| Prior year encumbrances appropriated | 360,975 | 360,975 | 360,975 | - |
| Fund balance at end of year | <u>\$ 109,486</u> | <u>\$ 213,197</u> | <u>\$ 556,651</u> | <u>\$ 343,454</u> |

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

| | <u>Agency</u> |
|--|------------------|
| <u>Assets:</u> | |
| Equity in pooled cash and cash equivalents | <u>\$ 11,934</u> |
| <u>Liabilities:</u> | |
| Accounts payable | 246 |
| Due to students | <u>11,688</u> |
| Total liabilities | <u>\$ 11,934</u> |

See accompanying notes to the basic financial statements.

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James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The School District 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 School 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 School District's four instructional/support facilities staffed by 67 non-certificated and 110 certificated full time teaching personnel, including 18 administrators, who provide services to 1,567 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations' governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes.

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. Based on the above criteria, the School District had no component units at June 30, 2004.

The School 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 in Note 16.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

B. Fund accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into two categories: governmental and fiduciary.

Governmental Funds

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

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

Bond Retirement Debt Service Fund – The bond retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

Fiduciary Fund Types

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

C. Measurement focus

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

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

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

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 and the agency fund uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (should not include delinquent) for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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 on 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. Allocations 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. 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.

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 2004. 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 over 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.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

F. Cash and investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented on the statement of net assets in the account, "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to overnight repurchase agreements and interest in Star Ohio, the State Treasurer's Investment Pool. All investments of the School District had a maturity of two years or less. These investments are stated at cost, which approximates market value (fair value). Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds; required by a grant agreement; or when approved by the Board of Education to be recorded in another fund. The Board of Education has passed a resolution to allow interest to also be recorded in other funds.

The School District invested funds in STAR Ohio during fiscal year 2004. 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 Securities Exchange Commission 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, 2004.

For presentation on the basic financial statements, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

Within the basic financial statements, inventories are presented at cost on a first-in, first out basis and are expensed when used.

Inventories of the general fund were not significant at the end of the year. Inventories of the food service special revenue fund consist of donated food, purchased food and supplies held for resale.

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

I. 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 imposed by creditors, contributors, grantors, and laws of other governments or by enabling legislation. Restricted assets may include unexpended revenues restricted for the purchase of school buses, and amounts required to be set aside by the School District for the purchase of textbooks or for the acquisition or construction of capital assets. Restricted assets may also include amounts set aside as a reserve for budget stabilization, which is now optional as determined by the School District. The School District did not spend all restricted assets in accordance with specific restrictions during the fiscal year. See Note 18 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

J. Capital assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. It is the policy of the School District to not capitalize interest costs incurred as part of construction.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <i>Description</i> | <i>Estimated Lives</i> |
|--------------------------------|------------------------|
| <i>Buildings</i> | <i>30 - 50 years</i> |
| <i>Furniture and equipment</i> | <i>5 - 20 years</i> |
| <i>Vehicles</i> | <i>5 - 20 years</i> |

K. 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 columns of the statement of net assets.

L. Compensated absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

M. 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, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

N. Net assets

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

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

O. Fund balance reserves

The School District reserves those portions of fund balance 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 the fund balance that is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, property taxes and budget stabilization.

P. Interfund transactions

Interfund transfers are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statements of net assets.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

Q. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

A. Changes in accounting principles

For fiscal year 2004, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs between governmental and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in Statement No. 34. Due to these fund reclassifications, there are no business-type activities reported.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability of compensated absences that had not matured during fiscal year 2003 and has reported prepaid amounts for services not yet consumed.

James A. Garfield Local School District
Notes to the Basic Financial Statements
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B. Restatement of fund balances

It was determined that enterprise funds should be reclassified to special revenue funds. In addition, the balances reported for inventory and intergovernmental payables in certain funds were required to be restated. The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

| | <u>General</u> | <u>Debt Service</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|------------------|-------------------------|--|---------------------|
| <i>Fund balances,</i> | | | | |
| <i>Fund balances at June 30, 2003</i> | \$ 21,112 | \$ 202,305 | \$ 121,393 | \$ 344,810 |
| <i>Fund reclassification</i> | - | - | 9,989 | 9,989 |
| <i>Restatement of intergovernmental payable</i> | (48,088) | - | 5,735 | (42,353) |
| <i>Restatement of inventory Interpretation No. 6</i> | (16,220) | - | - | (16,220) |
| <i>Compensated absences</i> | <u>69,862</u> | <u>-</u> | <u>-</u> | <u>69,862</u> |
| <i>Adjusted fund balances, June 30, 2003</i> | <u>\$ 26,666</u> | <u>\$ 202,305</u> | <u>\$ 137,117</u> | <u>366,088</u> |
| <i><u>GASB Statement No. 34 Adjustments:</u></i> | | | | |
| <i>Capital assets</i> | | | | 8,754,968 |
| <i>Long-term debt</i> | | | | (6,344,992) |
| <i>Capital leases</i> | | | | (84,679) |
| <i>Long-term liabilities</i> | | | | (598,315) |
| <i>Employer pension obligation</i> | | | | (86,513) |
| <i>Accrued interest</i> | | | | (24,167) |
| <i>Long-term (deferred) assets</i> | | | | <u>143,114</u> |
| <i>Governmental activities net assets, June 30, 2003</i> | | | | <u>\$ 2,125,504</u> |

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
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2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

| <i>Net Change in Fund Balance</i> | |
|------------------------------------|---------------------|
| | <i>General</i> |
| <i>GAAP basis</i> | \$ (252,046) |
| <i>Revenue accruals</i> | 45,366 |
| <i>Expenditure accruals</i> | (87,055) |
| <i>Encumbrances (Budget basis)</i> | |
| <i>Outstanding at year end</i> | <u>(270,921)</u> |
| <i>Budget basis</i> | <u>\$ (564,656)</u> |

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 moneys. Interim moneys are those moneys 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 pass book accounts. Interim moneys may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above 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 bankers' acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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

The carrying value of the School District's deposits and petty cash totaled (\$133,516) and the bank balances of the deposits totaled \$15,000. Of the bank balance, \$15,000 was covered by federal depository insurance. The School District maintains a "zero balance" account for each of their checking accounts. Money is credited to their checking account from a repurchase account that is linked to those accounts as checks are presented.

B. Investments

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the School District's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the School District or its agent in the School District's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

The School District's investment in STAR Ohio is an unclassified investment since it is not evidence by securities that exist in physical or book entry form.

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Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$17,906 which includes \$4,412 assigned from other School District funds.

| | <u>Category 3</u> | <u>Fair value</u> |
|-----------------------------------|-------------------|---------------------|
| <u>Categorized investments</u> | | |
| Repurchase agreements | <u>\$ 179,628</u> | 179,628 |
| <u>Noncategorized investments</u> | | |
| State Treasurer's Pool | | <u>1,132,528</u> |
| Total investments | | <u>\$ 1,312,156</u> |

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at varying percentages of true value (with certain exceptions) and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true 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 earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of year end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 was \$125,359 in the general fund and \$19,671 in the Bond Retirement debt service fund. These advances are recognized as revenue on the fund financial statements.

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

| <u>Property Category</u> | <u>2002</u> <u>Assessed Value</u> | <u>2003</u> <u>Assessed Value</u> |
|---------------------------------------|--------------------------------------|--------------------------------------|
| <u>Real Property</u> | | |
| Residential and Agricultural | \$ 103,609,155 | \$ 123,518,805 |
| Commercial and Industrial | 16,182,700 | 15,052,330 |
| Public Utilities | 22,500 | 21,640 |
| <u>Tangible Personal Property</u> | | |
| General | 10,305,591 | 8,616,974 |
| Public Utilities | 6,380,800 | 6,642,700 |
| Total | <u>\$ 136,500,746</u> | <u>\$ 153,852,449</u> |

NOTE 7 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts, intergovernmental grants and entitlements, and accrued interest. 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 follows:

| <u>Governmental activities</u> | <u>Amount</u> |
|------------------------------------|------------------|
| Food service | \$ 17,973 |
| Summer intervention | 2,310 |
| Title VI-B | 5,377 |
| Title I | 23,200 |
| Title VI | 5,321 |
| Drug free school grant | 278 |
| Title II-R | 15,142 |
| Miscellaneous federal grants | 3,166 |
| Total intergovernmental receivable | <u>\$ 72,767</u> |

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

NOTE 8 - CAPITAL ASSETS

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

| <u>Governmental Activities</u> | <u>Balance June 30, 2003</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance June 30, 2004</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 | 10,148,774 | 18,000 | (2,783) | 10,163,991 |
| Furniture, fixtures and equipment | 805,399 | 13,625 | (40,772) | 778,252 |
| Vehicles | 820,243 | 61,818 | (70,248) | 811,813 |
| Total capital assets, being depreciated | <u>12,015,190</u> | <u>93,443</u> | <u>(113,803)</u> | <u>11,994,830</u> |
| <i>Less: Accumulated depreciation</i> | | | | |
| Land improvements | (240,774) | - | - | (240,774) |
| Buildings | (2,265,639) | (195,278) | 1,842 | (2,459,075) |
| Furniture, fixtures and equipment | (505,559) | (86,786) | 32,143 | (560,202) |
| Vehicles | (367,023) | (80,090) | 70,248 | (376,865) |
| Total accumulated depreciation | <u>(3,378,995)</u> | <u>(362,154)</u> | <u>104,233</u> | <u>(3,636,916)</u> |
| Total capital assets being depreciated, net | <u>8,636,195</u> | <u>(268,711)</u> | <u>(9,570)</u> | <u>8,357,914</u> |
| Governmental activities capital assets, net | <u>\$ 8,754,968</u> | <u>\$ (268,711)</u> | <u>\$ (9,570)</u> | <u>\$ 8,476,687</u> |

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

Depreciation expense was charged to governmental functions as follows:

| | |
|---|------------|
| <i>Instruction:</i> | |
| <i>Regular</i> | \$ 211,515 |
| <i>Special</i> | 5,010 |
| <i>Support services:</i> | |
| <i>Pupils</i> | 985 |
| <i>Instructional staff</i> | 11,796 |
| <i>Administration</i> | 27,161 |
| <i>Fiscal</i> | 946 |
| <i>Operation and maintenance of plant</i> | 18,453 |
| <i>Pupil transportation</i> | 76,194 |
| <i>Extracurricular activities</i> | 2,329 |
| <i>Food service operations</i> | 7,765 |
| | \$ 362,154 |

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2004 consisted of the following:

| | <i>Interfund Receivable</i> | <i>Interfund Payable</i> | |
|------------------------------------|---------------------------------|------------------------------|--|
| <i>General fund</i> | \$ 10,103 | \$ - | |
| <i>Nonmajor governmental funds</i> | - | 10,103 | |
| | \$ 10,103 | \$ 10,103 | |

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

NOTE 10 - INTERFUND TRANSFERS

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

Interfund transfers for the year ended June 30, 2004, consisted of the following:

James A. Garfield Local School District

Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

| | |
|-----------------------|-----------------------|
| | <u>Transfers From</u> |
| | <u>General</u> |
| <u>Transfers To</u> | <u>Fund</u> |
| <i>Nonmajor funds</i> | <u>\$ 19,683</u> |

During the fiscal year, the general fund made transfers in the total amount of \$19,683 to two nonmajor special revenue funds. The transfer to these funds were to support programs accounted for in these funds.

NOTE 11 - RISK MANAGEMENT

A. Property, liability and employee benefit insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The School District has joined the Portage County School Consortium for health insurance for the School District's employees. The Portage County School Consortium was established in 1981 so that thirteen educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverages as a group. The consortium has organized into two distinct entities to facilitate its risk management operations. The Property and Casualty Insurance Pool functions to manage the member districts' physical property and liability risks. The Health and Welfare Trust is to facilitate the management of risks associated with providing employee benefits, coverages such as health and accident insurance, disability insurance and life insurance. The School District participates in the Health and Welfare Trust. The consortium retains a third-party administrator to facilitate the operation of the Health and Welfare Trust.

The School District pays all insurance premiums directly to the consortium. Although the School District does not participate in the day-to-day management of the consortium, one of its administrator's serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. The School District recognizes that it retains a contingent liability to provide insurance coverages 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.

B. Workers' Compensation

The School District is a member of the OSBA Workers' Compensation Group Rating Program established in April 1991. The program was created by the Ohio School Boards Association as a result of the Worker's Compensation group rating plan as defined in Section 4123.29 of the Ohio Revised Code. The group rating program allows school district to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established 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 for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2003, 8.17% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$160,348, \$61,009, and \$71,984, respectively; 41% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$95,076, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers - Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227 - 4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

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.

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 became disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$636,123, \$463,587, and \$428,895, respectively; 83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$108,457, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2004 were \$10,589 made by the School District and \$17,102 made by the plan members.

NOTE 13 - POSTEMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Health care benefits are financed on a pay-as-you-go basis.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$48,933 during the 2004 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, the net health care costs paid by the STRS were \$368,739,000 and eligible benefit recipients totaled 111,853.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced 50% for those who apply. For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$109,563, which includes a surcharge of \$22,951 during the 2004 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the SERS's net assets available for payment of health care benefits were \$300.8 million, at cost. The number of participants receiving health care benefits was approximately 62,000.

NOTE 14 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District, in prior years, has entered into capitalized leases for the acquisition of copiers. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards 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 fund financial statements of governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$84,679 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current fiscal year totaled \$14,892. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end.

| <i>Fiscal Year</i> | <i>Lease Payments</i> |
|--|---------------------------|
| 2005 | \$ 19,764 |
| 2006 | 19,764 |
| 2007 | 19,764 |
| 2008 | <u>19,764</u> |
| <i>Total minimum lease payments</i> | 79,056 |
| <i>Less: amount representing interest</i> | <u>(9,269)</u> |
| <i>Present value of minimum lease payments</i> | <u>\$ 69,787</u> |

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

NOTE 15 - LONG-TERM OBLIGATIONS

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

| | <i>Balance at</i> <u>7/1/2003</u> | <i>Additions</i> | <i>Reductions</i> | <i>Balance at</i> <u>6/30/2004</u> | <i>Due In</i> <u>One Year</u> |
|--|--------------------------------------|-------------------|---------------------|---------------------------------------|----------------------------------|
| <i>Governmental Activities</i> | | | | | |
| <u><i>General obligation bonds</i></u> | | | | | |
| <i>General obligation bonds 3.80%-5.0%</i> | \$ 6,344,992 | \$ - | \$ (200,000) | \$ 6,144,992 | \$ 205,000 |
| <u><i>Other liabilities</i></u> | | | | | |
| <i>Capital leases</i> | 84,679 | - | (14,892) | 69,787 | 15,850 |
| <i>Compensated absences</i> | 598,315 | 134,352 | (125,476) | 607,191 | 152,668 |
| <i>Total other liabilities</i> | <u>682,994</u> | <u>134,352</u> | <u>(140,368)</u> | <u>676,978</u> | <u>168,518</u> |
| <i>Governmental activities long-term liabilities</i> | <u>\$ 7,027,986</u> | <u>\$ 134,352</u> | <u>\$ (340,368)</u> | <u>\$ 6,821,970</u> | <u>\$ 373,518</u> |

In fiscal year 1999, the School District issued bonds for improvement and construction of classroom facilities in the amount of \$6,952,992. Principal payments are due each year on December 1 until 2024. For 2006 and 2007 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 2020 and beyond. All bonds are general obligation bonds for which the full faith and credit of the School District is pledged. These bonds will be paid from property taxes in the bond retirement debt service fund.

Compensated absences will be paid from the fund from which the person is paid. In prior years this has primarily been the general fund. Capital lease obligations will be paid from the general fund.

Principal and interest requirements to retire the long-term debt obligations outstanding at June 30, 2004 are as follows:

| <u>Fiscal Year Ending</u> | <u>General Obligation Bonds</u> | | |
|---------------------------|---------------------------------|---------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2005 | 205,000 | 278,410 | 483,410 |
| 2006 | 215,000 | 270,166 | 485,166 |
| 2007 | 85,885 | 405,035 | 490,920 |
| 2008 | 74,107 | 411,813 | 485,920 |
| 2009 | 225,000 | 261,139 | 486,139 |
| 2010-2014 | 1,275,000 | 1,146,961 | 2,421,961 |
| 2015-2019 | 1,585,000 | 817,357 | 2,402,357 |
| 2020-2024 | 2,015,000 | 377,693 | 2,392,693 |
| 2025 | 465,000 | 11,625 | 476,625 |
| <i>Total</i> | <u>\$ 6,144,992</u> | <u>\$ 3,980,199</u> | <u>\$ 10,125,191</u> |

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2004

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC) is the computer service organization or Data Acquisition Site (DAS) used by the School District. SPARCC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All Districts in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating districts governs SPARCC. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the general fund. During the fiscal year, the School District contributed \$23,377 to SPARCC.

Portage County School Consortium is an insurance group-purchasing consortium made up of thirteen school districts in Portage County. All member districts pay an insurance premium directly to the consortium. The School District paid \$1,565,903 in the form of health care premiums to the consortium for the current fiscal year.

The Maplewood Career Center is located in Portage County and offers vocational training to James A. Garfield students in the 11th and 12th grades. Although the district is represented on the Board of Education of the Career Center by appointing a member to a 3-year term, any financial support of the Career Center is generated directly by them through a countywide tax levy and state-supported pupil basic aid. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility.

NOTE 17 - CONTINGENCIES

A. Grants

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

B. School Funding

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2004

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

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 18 - STATUTORY RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and for capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the School District had offsets and/or qualifying disbursements 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.

| | <i>Textbook Reserve</i> | <i>Capital Maintenance Reserve</i> | <i>Budget Stabilization Reserve</i> | <i>Total</i> |
|---|-----------------------------|--|---|------------------|
| <i>Set-aside cash balance as of June 30, 2004</i> | \$ (299,051) | \$ - | \$ 50,665 | \$ (248,386) |
| <i>Current year set-aside requirement</i> | 224,556 | 224,556 | - | 449,112 |
| <i>Qualifying disbursements</i> | <u>(177,810)</u> | <u>(404,114)</u> | <u>-</u> | <u>(581,924)</u> |
| <i>Total</i> | <u>\$ (252,305)</u> | <u>\$ (179,558)</u> | <u>\$ 50,665</u> | <u>(381,198)</u> |
| <i>Balance carried forward future years</i> | <u>\$ (252,305)</u> | | | |

NOTE 19 - ACCOUNTABILITY

As of June 30, 2004, two funds had deficit fund balances. These deficits were caused by the application of GAAP. The general fund provides transfers to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The School District is monitoring these funds and is considering possible various options. The following funds had deficit balances as follows:

| <u>Fund</u> | <u>Amount</u> |
|-------------------------------------|---------------|
| <i>General</i> | \$ 225,380 |
| <i>Food service special revenue</i> | 7,020 |

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

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|----------------------------------|---------------------------|-------------------|----------------------|-------------------|---------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| Food Distribution Program | | 10.550 | | \$24,751 | | \$24,751 |
| School Breakfast Program | 05PU2003 | 10.553 | \$5,227 | | \$5,227 | |
| | 05PU2004 | | 13,665 | | 13,665 | |
| Total School Breakfast Program | | | 18,892 | | 18,892 | |
| National School Lunch Program | LLP42003 | 10.555 | 29,340 | | 29,340 | |
| | LLP42004 | | 68,268 | | 68,268 | |
| Total National School Lunch Program | | | 97,608 | | 97,607 | |
| Total U.S. Department of Agriculture | | | 116,500 | 24,751 | 116,499 | 24,751 |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education - Grants to States (IDEA Part B) | 6BSF-2003P | 84.027 | 15,541 | | 25,403 | |
| | 6BSF-2004P | | 172,787 | | 151,388 | |
| | 6BSD-2004P | | 16,870 | | 14,519 | |
| Total Special Education Grants to States | | | 205,198 | | 191,310 | |
| Special Education - Preschool Grants | PGS1-2002P | 84.173 | 1,343 | | 1,343 | |
| | PGS1-2003P | | 3,977 | | 3,977 | |
| Total Special Education - Preschool Grants | | | 5,319 | | 5,320 | |
| Total Special Education Cluster | | | 210,518 | | 196,630 | |
| Grants to Local Educational Agencies (Title I) | C1S1-2003 | 84.010 | 26,121 | | 40,957 | |
| | C1S1-2004 | | 145,152 | | 116,796 | |
| | | | 171,273 | | 157,753 | |
| Innovative Educational Program Strategies (Title V) | C2S1-2003 | 84.298 | (166) | | 3,162 | |
| | C2S1-2004 | | 8,517 | | 3,251 | |
| Total Innovative Education Program Strategies | | | 8,351 | | 6,413 | |
| Safe and Drug Free Schools (Title IV-A) | DRS1-2002 | 84.186 | | | 1,423 | |
| | DRS1-2003 | | 148 | | 4,106 | |
| | DRS1-2004 | | 12,742 | | 5,607 | |
| Total Safe and Drug Free Schools (Title IV-A) | | | 12,890 | | 11,136 | |
| Technology Literacy Challenge Fund Grants (Title II-D) | TJS1-2003 | 84.318 | (895) | | 3,323 | |
| | TJS1-2004 | | 6,087 | | 1,395 | |
| Total Technology Literacy Challenge Fund Grants (Title II-D) | | | 5,192 | | 4,718 | |
| School Renovation I & T | ATS3-2002 | 84.352A | | | 12 | |
| | ATS4-2003 | | | | 5,860 | |
| Total School Renovation I & T | | | | | 5,872 | |
| Improving Teacher Quality State Grants | TRS1-2003 | 84.367 | 972 | | 26,076 | |
| | TRS1-2004 | | 69,379 | | 39,564 | |
| | | | 70,351 | | 65,640 | |
| Total U.S. Department of Education | | | 478,575 | | 448,162 | |
| Totals | | | \$ 595,075 | \$ 24,751 | \$ 564,661 | \$ 24,751 |

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

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

**NOTES TO SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the United States Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

James A. Garfield Local School District
Portage County
10235 State Route 88
Garrettsville, Ohio 44231

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the James A. Garfield Local School District, Portage County, Ohio, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated January 4, 2005, wherein we noted the District adopted Government Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 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 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.

James A. Garfield Local School District
Portage County
Independent Accountant's Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

January 4, 2005



Auditor of State Betty Montgomery

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

James A. Garfield Local School District
Portage County
10235 State Route 88
Garrettsville, Ohio 44231

To the Board of Education:

Compliance

We have audited the compliance of the James A. Garfield Local School District, Portage County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

January 4, 2005

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

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | 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 § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Special Education Cluster: IDEA Part-B -CFDA No. 84.027 Preschool Grant – CFDA No. 84.173 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: > \$ 100,000 |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

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

APRIL 12, 2005