



**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Garaway Local School District
Tuscarawas County
146 Dover Rd. NW
Sugarcreek, Ohio 44681

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Garaway Local School District, Tuscarawas 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, the major fund, and the aggregate remaining fund information of the Garaway Local School District, Tuscarawas 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 14, 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.

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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 presented for additional analysis and is not a required part of the basic financial statements. We subjected this information 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.

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 14, 2005

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Garaway Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$190,898 which represents a 14.19% decrease from 2003.
- General revenues accounted for \$7,855,203 in revenue or 81.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,734,399 or 18.09% of total revenues of \$9,589,602.
- The District had \$9,780,500 in expenses related to governmental activities; \$1,734,399 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,855,203 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,874,545 in revenues, \$8,245,842 in expenditures and \$2,650 in other financing sources. During fiscal year 2004, the general fund's fund balance decreased \$368,647 from \$14,533 to a deficit of \$354,114.

Using these Basic Financial Statements

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

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-48 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 5,937,112
Capital assets	<u>3,243,664</u>
Total assets	<u>9,180,776</u>
<u>Liabilities</u>	
Current liabilities	5,709,169
Long-term liabilities	<u>2,317,089</u>
Total liabilities	<u>8,026,258</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	1,375,278
Restricted	534,408
Unrestricted	<u>(755,168)</u>
Total net assets	<u>\$ 1,154,518</u>

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

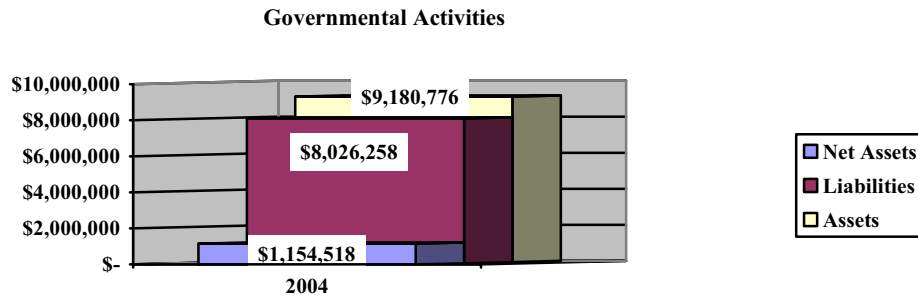
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$1,154,518. Of this total, (\$755,168) is unrestricted in use.

At year-end, capital assets represented 35.33% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$1,375,278. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$534,408, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is (\$755,168).

The graph below presents the District's assets, liabilities and net assets for fiscal year 2004.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 861,080
Operating grants and contributions	843,902
Capital grants and contributions	29,417
General revenues:	
Property taxes	4,373,111
Grants and entitlements	3,439,534
Investment earnings	11,153
Other	31,405
Total revenues	<u>9,589,602</u>

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 4,675,813
Special	887,196
Vocational	69,763
Other	4,173
Support services:	
Pupil	281,167
Instructional staff	392,301
Board of education	15,788
Administration	954,975
Fiscal	317,283
Operations and maintenance	811,413
Pupil transportation	667,161
Central	1,123
Food service operations	371,413
Extracurricular activities	200,334
Interest and fiscal charges	<u>130,597</u>
Total expenses	<u>9,780,500</u>
Change in net assets	<u>\$ (190,898)</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$190,898. Total governmental expenses of \$9,780,500 were offset by program revenues of \$1,734,399 and general revenues of \$7,855,203. Program revenues supported 17.73% of the total governmental expenses.

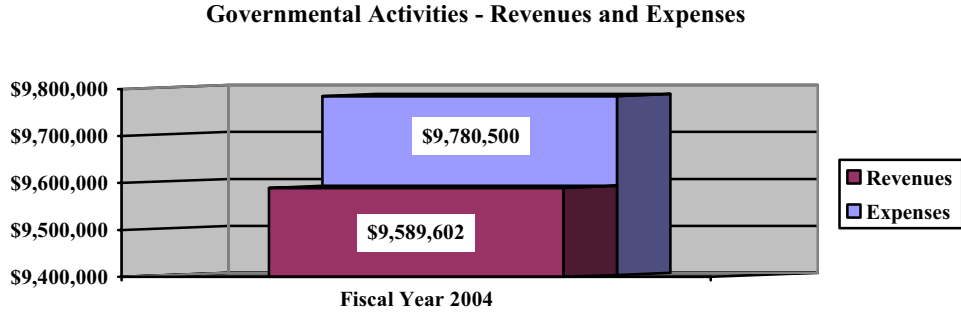
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 81.47% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,636,945 or 57.63% of total governmental expenses for fiscal 2004.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

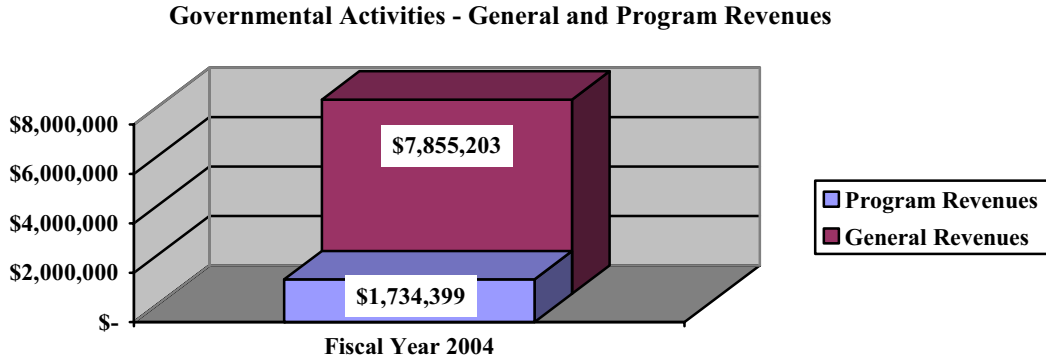
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 4,675,813	\$ 4,050,334
Special	887,196	550,779
Vocational	69,763	69,763
Other	4,173	4,173
Support services:		
Pupil	281,167	246,210
Instructional staff	392,301	285,330
Board of education	15,788	15,788
Administration	954,975	921,390
Fiscal	317,283	313,195
Operations and maintenance	811,413	717,740
Pupil transportation	667,161	634,963
Central	1,123	1,123
Food service operations	371,413	6,589
Extracurricular activities	200,334	98,127
Interest and fiscal charges	130,597	130,597
Total expenses	<u>\$ 9,780,500</u>	<u>\$ 8,046,101</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 82.94% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.27%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$144,129, which is lower than last year's total of \$474,895. The June 30, 2003 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ (354,114)	\$ 14,533	\$ (368,647)	(2,536.62) %
Other Governmental	498,243	460,362	37,881	8.23 %

General Fund

The District's general fund balance decreased \$368,647 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A to the basic financial statements). The decrease in fund balance was due to expenditures exceeding revenues as a result of the failure of an operating levy in November 2003 to cover operation and maintenance expenses. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,893,912	\$ 3,794,953	\$ 98,959	2.61 %
Earnings on investments	11,122	36,702	(25,580)	(69.70) %
Intergovernmental	3,416,916	3,256,445	160,471	4.93 %
Other revenues	<u>552,595</u>	<u>469,201</u>	<u>83,394</u>	17.77 %
 Total	 <u>\$ 7,874,545</u>	 <u>\$ 7,557,301</u>	 <u>\$ 317,244</u>	 4.20 %
<u>Expenditures</u>				
Instruction	\$ 5,059,456	\$ 5,008,055	\$ 51,401	1.03 %
Support services	3,023,020	3,316,874	(293,854)	(8.86) %
Extracurricular activities	<u>163,366</u>	<u>163,147</u>	<u>219</u>	0.13 %
 Total	 <u>\$ 8,245,842</u>	 <u>\$ 8,488,076</u>	 <u>\$ (242,234)</u>	 (2.85) %

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,576,632 and final budgeted revenues and other financing sources were \$7,659,813. Actual revenues and other financing sources for fiscal 2004 was \$7,745,563. This represents a \$168,931 increase over original budgeted revenues. The increase is primarily due to a change in tuition and an increase in intergovernmental state revenue.

General fund original appropriations and other financing uses were \$8,182,461 and final appropriations and other financing uses were \$8,400,792. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$8,310,741, which was \$90,051 below the final budget appropriations.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$3,243,664 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	Restated 2003
Land	\$ 72,005	\$ 72,005
Land improvements	109,302	-
Building and improvements	2,420,121	2,486,995
Furniture, fixtures and equipment	225,245	261,410
Vehicles	416,991	407,882
 Total	 \$ 3,243,664	 \$ 3,228,292

The overall increase in capital assets of \$15,372 is due to capital outlays of \$239,611 exceeding depreciation expense of \$221,322 and disposals net of accumulated depreciation of \$2,917 in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$1,475,000 in general obligation bonds and \$393,386 in energy conservation notes outstanding. Of this total, \$127,426 is due within one year and \$1,740,960 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
General obligation bonds	\$ 1,475,000	\$ 1,575,000
Energy conservation notes	393,386	419,359
 Total	 \$ 1,868,386	 \$ 1,994,359

At June 30, 2004, the District's overall legal debt margin was \$16,952,157, and an unvoted debt margin of \$170,074.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

As the preceding information shows, the Garaway Local School District relies heavily upon its property taxpayers. As such, the future is not without challenges.

Since the last new operating levy was in 1993, the Board's five-year financial projections indicated that the natural budget cycle needs of the District would require additional operating income and/or reductions of expenses beginning in fiscal year 2004. After the school district had communicated to its communities its reliance upon their support for the major part of its operations, the communities supported the passage of a new emergency operating levy on March 2, 2004 to generate \$1,487,300 annually effective with the calendar year 2004. However, collection of this new levy will not begin until calendar year 2005.

The Board has reduced operating expenses in fiscal year 2004 and will implement a Reduction in Force plan beginning in fiscal year 2005 requiring the consolidation of elementary classrooms, elimination of expenses for secondary classes, and reduction of administrative positions. Nine certified positions, two classified positions and one administrative position will be affected.

The Board must develop a long-range financial recovery plan. The Board is committed to not treating the additional funds the District will receive from the new levy as a windfall to expand programs but as a means to operate over the next five years staying within its financial plan parameters while recalling staff in order to return classrooms to community elementary buildings.

The support of the emergency operating levy demonstrates the strong belief of parents and community members that their schools, although housed in aging facilities, are one of the highest priorities and one of the most important public institutions in their communities. Being ranked 429th of 613 school districts in Ohio, the District will not qualify for financial assistance from the Ohio School Facilities Commission for several years. The District is fortunate to have a permanent improvement levy designated for the purpose of building maintenance and repair. However, this levy is on a five-year term and is scheduled to expire December 31, 2004. Without the renewal of the permanent improvement levy, the cost of the District's facilities maintenance program will fall to the general operating fund.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". On December 11, 2002, the Supreme court issued its latest opinion reaffirming its earlier decision that Ohio's current school funding plan is unconstitutional. The Supreme Court has relinquished jurisdiction over the case and has directed the Ohio General Assembly to enact a school funding scheme that is thorough and efficient. The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations. The District has not anticipated growth in state revenue due to being on a guarantee for state foundation calculation purposes. The guarantee generates a foundation level for the District equal to the amount it received in 1998.

The District is committed to educational and financial excellence. The District continues to perform at the highest level as determined by the State of Ohio measuring a defined set of proficiency criteria. The most recent state report card shows the District achieving a perfect 18 out of 18 indicators.

It is imperative the District's Board and management team continue to carefully and prudently plan in order to meet future challenges and provide the resources required to meet the students' needs over the next several years.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Patricia J. King, Treasurer, Garaway Local School District, 146 Dover Road, NW, Sugarcreek, Ohio 44681-9309.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 810,060
Receivables:	
Taxes	5,012,652
Accounts	1,192
Intergovernmental	110,995
Materials and supplies inventory	2,213
Capital assets:	
Land	72,005
Depreciable capital assets, net	3,171,659
Capital assets, net.	3,243,664
 Total assets.	 9,180,776
 Liabilities:	
Accounts payable.	16,461
Accrued wages and benefits	1,057,722
Intergovernmental payable	241,927
Deferred revenue	4,383,361
Accrued interest payable	9,698
Long-term liabilities:	
Due within one year.	203,033
Due within more than one year	2,114,056
Total liabilities	8,026,258
 Net Assets:	
Invested in capital assets, net of related debt.	1,375,278
Restricted for:	
Capital projects	282,924
Debt service.	188,417
Other purposes	63,067
Unrestricted.	(755,168)
Total net assets	\$ 1,154,518

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,675,813	\$ 508,672	\$ 110,886	\$ 5,921	\$ (4,050,334)
Special	887,196	-	336,417	-	(550,779)
Vocational	69,763	-	-	-	(69,763)
Other	4,173	-	-	-	(4,173)
Support services:					
Pupil	281,167	-	34,957	-	(246,210)
Instructional staff	392,301	-	106,971	-	(285,330)
Board of education	15,788	-	-	-	(15,788)
Administration	954,975	-	32,675	910	(921,390)
Fiscal	317,283	-	4,088	-	(313,195)
Operations and maintenance	811,413	-	79,721	13,952	(717,740)
Pupil transportation	667,161	23,564	-	8,634	(634,963)
Central	1,123	-	-	-	(1,123)
Operation of non-instructional services:					
Food service operations	371,413	226,637	138,187	-	(6,589)
Extracurricular activities	200,334	102,207	-	-	(98,127)
Interest and fiscal charges	130,597	-	-	-	(130,597)
Total governmental activities	\$ 9,780,500	\$ 861,080	\$ 843,902	\$ 29,417	(8,046,101)

General Revenues:

Property taxes levied for:	
General purposes	3,903,490
Capital projects	223,057
Debt service	246,564
Grants and entitlements not restricted to specific programs	
Investment earnings	11,153
Miscellaneous	31,405
Total general revenues	7,855,203
Change in net assets	(190,898)
Net assets at beginning of year (restated)	1,345,416
Net assets at end of year	<u>\$ 1,154,518</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 254,120	\$ 505,022	\$ 759,142
Receivables:			
Taxes	4,540,234	472,418	5,012,652
Accounts	596	596	1,192
Intergovernmental	-	110,995	110,995
Interfund receivable	2,182	-	2,182
Materials and supplies inventory	-	2,213	2,213
Restricted assets:			
Equity in pooled cash and cash equivalents	50,918	-	50,918
Total assets	\$ 4,848,050	\$ 1,091,244	\$ 5,939,294
Liabilities:			
Accounts payable	\$ 8,143	\$ 8,318	\$ 16,461
Accrued wages and benefits	941,586	116,136	1,057,722
Compensated absences payable	32,002	2,885	34,887
Intergovernmental payable.	148,298	18,521	166,819
Interfund payable.	-	2,182	2,182
Deferred revenue.	4,072,135	444,959	4,517,094
Total liabilities	5,202,164	593,001	5,795,165
Fund Balances:			
Reserved for encumbrances	43,022	103,247	146,269
Reserved for materials and supplies inventory.	-	2,213	2,213
Reserved for property tax unavailable for appropriation	468,099	48,894	516,993
Reserved for school bus purchase.	50,918	-	50,918
Unreserved, undesignated, reported in:			
General fund	(916,153)	-	(916,153)
Special revenue funds.	-	4,688	4,688
Debt service fund	-	170,483	170,483
Capital projects funds.	-	168,718	168,718
Total fund balances	(354,114)	498,243	144,129
Total liabilities and fund balances	\$ 4,848,050	\$ 1,091,244	\$ 5,939,294

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	144,129
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,243,664
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	112,298	
Intergovernmental revenue		21,435	
Total			133,733
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		413,816	
Pension obligation payable		75,108	
Energy conservation note		393,386	
General obligation bonds payable		1,475,000	
Accrued interest payable		9,698	
Total			(2,367,008)
Net assets of governmental activities		\$	1,154,518

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 3,893,912	\$ 468,674	\$ 4,362,586
Tuition.	457,105	-	457,105
Transportation fees.	23,564	-	23,564
Earnings on investments.	11,122	31	11,153
Charges for services.	-	226,160	226,160
Extracurricular.	-	130,146	130,146
Classroom materials and fees	49,758	-	49,758
Other local revenues.	22,168	80,522	102,690
Intergovernmental - State.	3,416,916	129,497	3,546,413
Intergovernmental - Federal	-	667,735	667,735
Total revenue	7,874,545	1,702,765	9,577,310
Expenditures:			
Current:			
Instruction:			
Regular	4,444,051	158,326	4,602,377
Special.	544,182	340,325	884,507
Vocational.	67,050	-	67,050
Other.	4,173	-	4,173
Support services:			
Pupil.	246,667	34,336	281,003
Instructional staff	282,818	99,225	382,043
Board of education	16,170	-	16,170
Administration.	913,193	34,189	947,382
Fiscal	287,522	26,566	314,088
Operations and maintenance.	661,204	185,944	847,148
Pupil transportation	614,633	55,376	670,009
Central.	813	-	813
Food service operations	-	369,544	369,544
Extracurricular activities.	163,366	103,826	267,192
Debt service:			
Principal retirement	-	125,973	125,973
Interest and fiscal charges	-	131,254	131,254
Total expenditures	8,245,842	1,664,884	9,910,726
Excess of revenues under expenditures . . .	(371,297)	37,881	(333,416)
Other financing sources:			
Proceeds from sale of capital assets.	2,650	-	2,650
Total other financing sources	2,650	-	2,650
Net change in fund balances	(368,647)	37,881	(330,766)
Fund balances at beginning of year (restated).			
	14,533	460,362	474,895
Fund balances (deficit) at end of year. . .	\$ (354,114)	\$ 498,243	\$ 144,129

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(330,766)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.		18,289
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(2,917)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		12,292
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		125,973
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and notes.		657
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(14,426)
Change in net assets of governmental activities	\$	(190,898)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,796,920	\$ 3,838,621	\$ 3,741,863	\$ (96,758)
Tuition.	338,745	342,465	457,105	114,640
Transportation Fees	30,762	31,100	23,111	(7,989)
Earnings on investments.	15,021	15,186	11,840	(3,346)
Classroom materials and fees	43,720	44,200	49,615	5,415
Other local revenues	32,476	32,800	22,840	(9,960)
Intergovernmental - State	3,317,999	3,354,441	3,416,916	62,475
Total revenue	<u>7,575,643</u>	<u>7,658,813</u>	<u>7,723,290</u>	<u>64,477</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,351,890	4,468,054	4,449,903	18,151
Special.	567,802	582,958	588,005	(5,047)
Vocational.	63,596	65,294	66,728	(1,434)
Other.	10,991	11,204	4,512	6,692
Support services:				
Pupil.	263,566	270,601	255,669	14,932
Instructional staff	276,610	283,993	286,586	(2,593)
Board of education	19,488	20,008	16,169	3,839
Administration.	862,265	885,281	926,553	(41,272)
Fiscal	268,435	275,600	286,491	(10,891)
Operations and maintenance.	689,736	708,147	661,788	46,359
Pupil transportation	581,861	597,393	596,862	531
Central.	1,199	1,231	813	418
Extracurricular activities.	224,295	230,282	163,430	66,852
Total expenditures	<u>8,181,734</u>	<u>8,400,046</u>	<u>8,303,509</u>	<u>96,537</u>
Excess of revenues over (under) expenditures.	<u>(606,091)</u>	<u>(741,233)</u>	<u>(580,219)</u>	<u>161,014</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	-	15,319	15,319
Refund of prior year (receipts)	(727)	(746)	(746)	-
Transfers in.	-	-	4,304	4,304
Transfers (out)	-	-	(4,304)	(4,304)
Advances (out)	-	-	(2,182)	(2,182)
Proceeds from sale of capital assets.	989	1,000	2,650	1,650
Total other financing sources (uses)	<u>262</u>	<u>254</u>	<u>15,041</u>	<u>14,787</u>
Net change in fund balance	(605,829)	(740,979)	(565,178)	175,801
Fund balance at beginning of year.	731,026	731,026	731,026	-
Prior year encumbrances appropriated	96,098	96,098	96,098	-
Fund balance at end of year	<u>\$ 221,295</u>	<u>\$ 86,145</u>	<u>\$ 261,946</u>	<u>\$ 175,801</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 42,091
Total assets.	\$ 42,091
Liabilities:	
Accounts payable.	\$ 1,625
Due to students	40,466
Total liabilities	\$ 42,091

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Garaway Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District ranks as the 429th largest by enrollment among the 613 public school districts in the state and 7th largest in Tuscarawas County. The District is staffed by 54 non-certificated employees, 86 certificated full-time teaching personnel and 7 administrative employees who provide services to 1,238 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Buckeye Joint Vocational School District

The Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Joint Vocational School District's Board of Education is comprised of representatives from the Board of Education of each participating school district. The Joint Vocational School District's Board of Education is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. The District's students may attend the Joint Vocational School District. Each participating District's control is limited to its representation on the Joint Vocational School District's Board of Education. During fiscal 2004, no monies were paid to the Joint Vocational School District from the District.

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Tuscarawas County Tax Incentive Review Council

The Tuscarawas County Tax Incentive Review Council (TCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to Section 5705.62 of the Ohio Revised Code. TCTIRC has 44 members, consisting of 3 members appointed by the County Commissioners, 18 members appointed by municipal corporations, 14 members appointed by township trustees, 1 member from the county auditor's office and 8 members appointed by boards of education located within the county. TCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the TCTIRC can make written recommendations to the legislative authority which approved the agreement. There is no cost associated with being a member of this TCTIRC. The continued existence of the TCTIRC is not dependent on the District's continued participation and no measurable equity interest exists.

The District does not retain an ongoing financial interest or an ongoing financial responsibility with any of these organizations.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

East Ohio Schools Employees Insurance Consortium

The East Ohio Schools Employees Insurance Consortium (the "Consortium") is an insurance pool between the District, Dover City School District and Buckeye Career Center that was formed on October 1, 2002. The Consortium was established in order to act as a common risk management and insurance program. The Consortium's Board of Directors is comprised of one member from each of the districts (the Superintendent or designee). Refer to Note 11C. for further information on the Consortium.

B. Fund Accounting

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

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

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

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 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.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. On July 25, 2002, the Tuscarawas County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15 and the filing by January 20. In order to complete other necessary documents, the Budget Commission now requires certain information to be filed by May 1. Information required includes the general fund five year forecast submitted to the Department of Education, projected revenues and expenditures line items for all levy funds, projected revenues and debt requirements (principal and interest) and amortization schedules for the debt service fund, and balances and total anticipated activity for all other funds.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The final budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 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 SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$11,122, which includes \$5,523 assigned from other funds.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$25,000 for land improvements and building improvements and \$1,500 for furniture, fixtures, and equipment and vehicles. Donated capital assets are recorded at their fair market values as of the date received. 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. The District does not possess infrastructure.

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

Description	Governmental Activities Estimated Lives
Land improvements	10 - 20 years
Buildings and improvements	20 - 50 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles	10 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

The District follows the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. The liability is an estimate based on the District's past experience of making termination payments.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Estimates

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

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside money to purchase a school bus. This restriction is required by state statute. A schedule of statutory reserves and restricted assets is presented in Note 16.

P. Interfund Activity

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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 government-wide financial statements show the District's programs for governmental 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.

In addition to implementing GASB Statement No. 34, the District switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at June 30, 2003.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 18,017	\$ 488,344	\$ 506,361
Fund reclassifications	-	(24,629)	(24,629)
Implementation of GASB Interpretation No. 6	(3,484)	(3,353)	(6,837)
Restated fund balance, June 30, 2003	\$ 14,533	\$ 460,362	\$ 474,895

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 474,895
GASB 34 adjustments:	
Long-term (deferred) assets	121,441
Capital assets	3,228,292
Accrued interest payable	(10,355)
Intergovernmental payable	(72,702)
Long-term liabilities	(2,396,155)
Governmental activities net assets, June 30, 2003	\$ 1,345,416

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
General Fund	\$ 354,114
<u>Nonmajor Funds</u>	
Food Service	29,318
Entry Year Programs	12
Ohio Reads	37
Summer Intervention	732
Title I	987
Drug-Free School Grant	33
Classroom Reduction	462

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At year-end, the carrying amount of the District's deposits was \$169,596 and the bank balance was \$185,607. Of the bank balance:

1. \$100,000 was covered by federal depository insurance deposited with the District; and
2. \$85,607 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreement	\$ 336,422	\$ 336,422	\$ 336,422
Investment in STAR Ohio		<u>346,133</u>	<u>346,133</u>
Total investments		<u>\$ 682,555</u>	<u>\$ 682,555</u>

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 852,151	\$ -
Investments of the cash management pool:		
Repurchase agreement	(336,422)	336,422
Investment in STAR Ohio	<u>(346,133)</u>	<u>346,133</u>
GASB Statement No. 3	<u>\$ 169,596</u>	<u>\$ 682,555</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 2,182

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Tuscarawas, Holmes and Coshocton Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$468,099 in the general fund, \$22,730 in the debt service fund and \$26,164 in the Permanent Improvement capital projects fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$316,050 in the general fund, \$17,524 in the debt service fund and \$18,365 in the Permanent Improvement fund.

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 132,374,410	80.64	\$ 138,270,480	81.31
Public utility personal	6,098,870	3.72	5,578,870	3.28
Tangible personal property	<u>25,680,137</u>	<u>15.64</u>	<u>26,224,805</u>	<u>15.41</u>
Total	<u>\$ 164,153,417</u>	<u>100.00</u>	<u>\$ 170,074,155</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 45.00		\$ 44.95	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Property taxes	\$ 5,012,652
Accounts	1,192
Intergovernmental	<u>110,995</u>
Total	<u>\$ 5,124,839</u>

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

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to the reclassification of funds from proprietary to governmental and the depreciation of capital assets in accordance with GASB Statement No. 34.

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 72,005	\$ -	\$ 72,005
Total capital assets, not being depreciated	<u>72,005</u>	<u>-</u>	<u>72,005</u>
Capital assets, being depreciated:			
Land improvements	33,390	-	33,390
Buildings and improvements	4,626,517	-	4,626,517
Furniture and equipment	745,658	50,491	796,149
Vehicles	791,762	-	791,762
Total capital assets, being depreciated	<u>6,197,327</u>	<u>50,491</u>	<u>6,247,818</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(3,091,531)</u>	<u>(3,091,531)</u>
Governmental activities capital assets, net	<u>\$ 6,269,332</u>	<u>\$ (3,041,040)</u>	<u>\$ 3,228,292</u>

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 72,005	\$ -	\$ -	\$ 72,005
Total capital assets, not being depreciated	<u>72,005</u>	<u>-</u>	<u>-</u>	<u>72,005</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	33,390	112,105	-	145,495
Buildings and improvements	4,626,517	36,197	-	4,662,714
Furniture, fixtures and equipment	796,149	35,933	(62,402)	769,680
Vehicles	791,762	55,376	(65,732)	781,406
Total capital assets, being depreciated	<u>6,247,818</u>	<u>239,611</u>	<u>(128,134)</u>	<u>6,359,295</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(33,390)	(2,803)	-	(36,193)
Buildings and improvements	(2,139,522)	(103,071)	-	(2,242,593)
Furniture, fixtures and equipment	(534,739)	(69,181)	59,485	(544,435)
Vehicles	(383,880)	(46,267)	65,732	(364,415)
Total accumulated depreciation	<u>(3,091,531)</u>	<u>(221,322)</u>	<u>125,217</u>	<u>(3,187,636)</u>
Governmental activities capital assets, net	<u>\$ 3,228,292</u>	<u>\$ 18,289</u>	<u>\$ (2,917)</u>	<u>\$ 3,243,664</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 90,857
Special	8,971
Vocational	1,136

Support Services:

Pupil	1,087
Instructional staff	5,898
Administration	5,946
Fiscal	236
Operations and maintenance	11,085
Pupil transportation	46,267
Central	310
Food service operations	1,741
Extracurricular	<u>47,788</u>

Total depreciation expense \$ 221,322

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS

A. The balance of the District's long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased from \$400,524 to \$423,130 due to the implementation of GASB Interpretation No. 6 described in Note 3. In addition, pension obligations of \$60,733 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported as part of intergovernmental payables on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$38,127 from \$2,455,616 to \$2,417,489. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>07/01/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
General obligation bond	\$ 1,575,000	\$ -	\$ (100,000)	\$ 1,475,000	\$ 100,000
Energy conservation note	419,359	-	(25,973)	393,386	27,426
Pension obligation payable	-	-	-	-	-
Compensated absences					
Severance	375,283	32,700	-	407,983	34,887
Vacation	<u>47,847</u>	<u>-</u>	<u>(7,127)</u>	<u>40,720</u>	<u>40,720</u>
Total compensated absences	<u>423,130</u>	<u>32,700</u>	<u>(7,127)</u>	<u>448,703</u>	<u>75,607</u>
Total long-term obligations, governmental activities	<u>\$ 2,417,489</u>	<u>\$ 32,700</u>	<u>\$ (133,100)</u>	<u>\$ 2,317,089</u>	<u>\$ 203,033</u>

General Obligation Bond - The District issued the voted general obligation bond for the purpose of constructing a high school building. The bond was issued with an interest rate ranging from 6.00% to 7.20% for a twenty-four year period with final maturity at December 1, 2014. The bond will be retired from the debt service fund.

Energy Conservation Note - On June 8, 2000, the District issued a \$491,501 energy conservation note in accordance with Section 3313.372, Ohio Revised Code, and House Bill 264. This note bears an interest rate of 5.25% and matures on May 8, 2015. The primary source of repayment of this note is through energy savings as a result of the improvements. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

- B.** The following is a summary of the District's future annual debt service requirements to maturity for notes and bonds:

Year Ending <u>June 30</u>	Principal on <u>Loan/Bonds</u>	Interest on <u>Loan/Bonds</u>	<u>Total</u>
2005	\$ 127,426	\$ 122,601	\$ 250,027
2006	128,901	113,926	242,827
2007	135,455	104,992	240,447
2008	147,052	95,475	242,527
2009	153,818	85,249	239,067
2010 - 2014	948,379	247,555	1,195,934
2015	<u>227,355</u>	<u>7,778</u>	<u>235,133</u>
Total	<u>\$ 1,868,386</u>	<u>\$ 777,576</u>	<u>\$ 2,645,962</u>

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$16,952,157, (including available funds of \$185,991) and an unvoted debt margin of \$170,074.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees and administrators who are contracted to work 248 days or more per year earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to employees upon termination of employment or retirement. Administrators, teachers and classified employees who work less than 248 days per year do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 212 days for certified employees and 215 days for classified employees. Upon termination of employment or retirement, a certified employee or administrator receives payment for one-fourth of the total sick leave accumulation up to a maximum accumulation of 49 days. Upon termination of employment or retirement, a classified employee is paid for one-fourth of the total sick leave accumulation to a maximum accumulation of 48 days.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to employees through the Sun Life Assurance Company of Canada of \$15,000 and \$7,500 for full-time and part-time certified employees, respectively, of \$18,000 and \$9,000 for full-time and part-time classified employees, respectively, and \$15,000 for the Superintendent and \$50,000 for the Treasurer.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted with Indiana Insurance Company for property insurance, and fleet insurance. Coverages provided and deductibles are as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$29,352,858
Inland Marine Coverage (\$250 deductible)	199,281
Contractor's Equipment Coverage (\$100 deductible)	51,307
Boiler and Machinery (\$500 deductible)	29,352,858
Automobile Liability (no deductible)	1,000,000
Uninsured Motorists (no deductible)	1,000,000

Professional liability is protected by the Ohio School Plan with a \$1,000,000 single occurrence limit, a \$3,000,000 aggregate limit, and no deductible. The Travelers Casualty and Surety Company of America also maintain \$20,000 public official bonds for the Board President, Board Vice-President, Superintendent, Assistant Treasurer, and Athletic Director. The Travelers Casualty and Surety Company of America maintain a \$25,000 bond for the Treasurer. In addition, the Indiana Insurance Company provides an \$8,000 public blanket bond for other employees.

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

B. Workers' Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP. The District paid \$2,016 in administrative fees for fiscal year 2004.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Group Life, Medical, Dental, and Vision Insurance

Effective October 1, 2002 the District formed the East Ohio Schools Employees Insurance Consortium as a charter member with two other local school districts. For certified and classified employees, the Consortium provides medical/surgical coverage which is same as classified. For classified employees, the plan provides medical/surgical coverage which is 100% in-network and 90% out-of-network paid of reasonable and customary charges. Major medical expense coverage includes a \$100 individual and \$200 family annual deductible in-network and \$200 individual and \$400 family annual deductible out-of-network, followed by a 90% in-network and 80% out-of-network employee co-payment to a \$250 per person and \$500 per family in-network and \$750 per person and \$1,000 per family out-of-network out-of-pocket maximum. A third party administrator, Klais & Company, Inc., of Akron, Ohio, reviews all claims which are then paid by the Consortium. The Consortium purchases stop-loss coverage of \$100,000 per individual from Excess Benefits, Inc. The District also provides dental and vision coverage through the Consortium. The premiums are paid by the District at a rate of 90% for full-time employees and 50% for part-time employees. The premium is paid by the fund that paid the salary for the employee.

Total required monthly premiums for coverage are as follows:

	<u>Family</u>	<u>Individual</u>
Medical/Surgical	\$ 811.91	\$ 324.76
Dental	55.37	22.15
Vision	9.40	3.76

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$148,296, \$149,728, and \$142,774, respectively; 44.39% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$82,464, represents the unpaid contribution for fiscal year 2004.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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. 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$604,153, \$595,159, and \$571,288, respectively; 83.53% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$99,528 represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$43,154 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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 by 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% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$52,010 during the 2004 fiscal year.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (565,178)
Net adjustment for revenue accruals	151,255
Net adjustment for expenditure accruals	14,575
Net adjustment for other sources/uses	(12,391)
Adjustment for encumbrances	43,092
GAAP basis	\$ (368,647)

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not involved in significant litigation as either plaintiff or defendant.

C. State School Funding Decision

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

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Reserve</u>
Set-aside cash balance as of June 30, 2003	\$ (173,472)	\$ -	\$ 40,124
Current year set-aside requirement	169,190	169,190	-
Current year offsets	(52,868)	(185,645)	-
Qualifying disbursements	<u>(112,673)</u>	<u>(75,659)</u>	<u>(40,124)</u>
Total	<u>\$ (169,823)</u>	<u>\$ (92,114)</u>	<u>\$ -</u>
Cash balance carried forward to FY 2005	<u>\$ (169,823)</u>	<u>\$ -</u>	<u>\$ -</u>

A schedule of the restricted assets at June 30, 2004 follows:

Amounts restricted for school bus purchase	<u>\$ 50,918</u>
Total restricted assets	<u>\$ 50,918</u>

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENTS

An 8.8 mills emergency operating levy generating \$1,487,300 annually was passed on March 2, 2004 effective calendar year 2004. However, collection will not begin until calendar year 2005. Therefore, a reduction in force plan has been implemented beginning the 2004/2005 school year. Reductions to the general operating fund total \$600,000 and affect 9 certified positions, 2 classified positions, and 1 administrative position. As of July 31, 2004, 2 certified and 2 classified personnel have been recalled as a result of retirements and resignations.

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS 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	Expenditures	Non-Cash Expenditures
U.S. Department Of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
National School Lunch Program	N/A	10.555	\$93,764		\$93,764	
Food Donation	N/A	10.550		\$41,798		\$41,798
Total U.S. Department of Agriculture - Child Nutrition Cluster			93,764	41,798	93,764	41,798
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1-03 C1-S1-04	84.010	23,110 205,980		52,461 200,400	
Total Title I Grants to Local Educational Agencies			229,090		252,861	
Innovative Education Program Strategies	C2-S1-03 C2-S1-04	84.298			2,105 4,780	
Total Innovative Education Program Strategies			4,503		6,885	
Special Education_Grants to States	6B-SF-03 6B-SF-04 6B-SD-04	84.027	9,398 156,115 21,210		21,634 153,436 15,685	
Total Special Education_Grants to States			186,723		190,755	
Improving Teacher Quality State Grants	TR-S1-03 TR-S1-04	84.367	5,478 54,053		8,128 51,964	
Total Improving Teacher Quality State Grants			59,531		60,092	
Safe and Drug-Free Schools and Communities_ State Grants	DR-S1-04	84.186	4,009		4,009	
School Renovation Grants	AT-S4-02	84.352			7,203	
Technology Literacy Challenge Fund Grants	TJ-S1-04	84.318	2,317		2,314	
Total U.S. Department of Education			486,173		524,119	
Total			\$579,937	\$41,798	\$617,883	\$41,798

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

**NOTES TO THE 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 District to maintain separate inventory records for purchased food and food received from the U.S. 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 U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Garaway Local School District
Tuscarawas County
146 Dover Rd. NW
Sugarcreek, Ohio 44681

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Garaway Local School District, Tuscarawas County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 14, 2005, in which we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

However, we noted an immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated January 14, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions 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.

However, we noted an other matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated January 14, 2005.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

This report is intended solely for the information and use of 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 14, 2005



**Auditor of State
Betty Montgomery**

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

Garaway Local School District
Tuscarawas County
146 Dover Rd. NW
Sugarcreek, Ohio 44681

To the Board of Education:

Compliance

We have audited the compliance of the Garaway Local School District, Tuscarawas 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 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 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.



Betty Montgomery
Auditor of State

January 14, 2005

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education_ Grants to States CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

**GARAWAY LOCAL SCHOOL DISTRICT
TUSCARAWAS 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
MARCH 8, 2005**