

James A. Garfield Local School District

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Basic Financial Statements

June 30, 2005



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the James A. Garfield Local School District, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 16, 2006

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JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2005
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 18, 2005

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of James A. Garfield Local School District (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2005, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

This discussion and analysis of James A. Garfield Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- Net assets of governmental activities increased \$815,690, representing a 45 percent increase from 2004.
- General revenues accounted for \$10,893,218 in revenue or 85.4 percent of all revenues. Program revenues in the form of charges for services, operating and capital grants, contributions and interest accounted for \$1,867,287 or 14.6 percent of total revenues of \$12,760,505.
- The School District had \$11,944,815 in expenses related to governmental activities; only \$1,867,287 of these expenses was offset by program specific revenues. General revenues of \$10,893,218 were adequate to provide for these programs.
- At the end of the current fiscal year the governmental funds reported a combined ending fund balance of \$901,296, an increase of \$931,480 from the prior fiscal year. The largest increase reported within a fund was to the general fund, which reported an increase in fund balance of \$892,442.

Using this Annual Financial Report

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

The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of James A. Garfield Local School District, the general fund and the debt service fund are the most significant funds.

James A.Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The statement of net assets and the statement of activities answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
<i>Current and other assets</i>	\$ 6,811,605	\$ 5,240,260
<i>Capital assets, net of depreciation</i>	8,149,083	8,504,552
<i>Total assets</i>	<u>14,960,688</u>	<u>13,744,812</u>
Liabilities		
<i>Current and other liabilities</i>	5,765,397	5,111,010
<i>Long-term liabilities:</i>		
<i>Due within one year</i>	320,695	373,518
<i>Due in more than one year</i>	6,247,074	6,448,452
<i>Total liabilities</i>	<u>12,333,166</u>	<u>11,932,980</u>
Net Assets		
<i>Invested in capital assets, net of related debt</i>	2,155,154	2,289,773
<i>Restricted</i>	299,295	278,168
<i>Unrestricted</i>	173,073	(756,109)
<i>Total net assets</i>	<u>\$ 2,627,522</u>	<u>\$ 1,811,832</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the School District's assets exceeded liabilities by \$2,627,522.

Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2005. Capital assets include land, land improvements, buildings, furniture, fixtures, and equipment, and vehicles, and are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$299,295 or 11.4 percent, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$232,322, or 77.6 percent, is restricted for debt service payments; and \$66,973, or 22.4 percent, is restricted for other purposes.

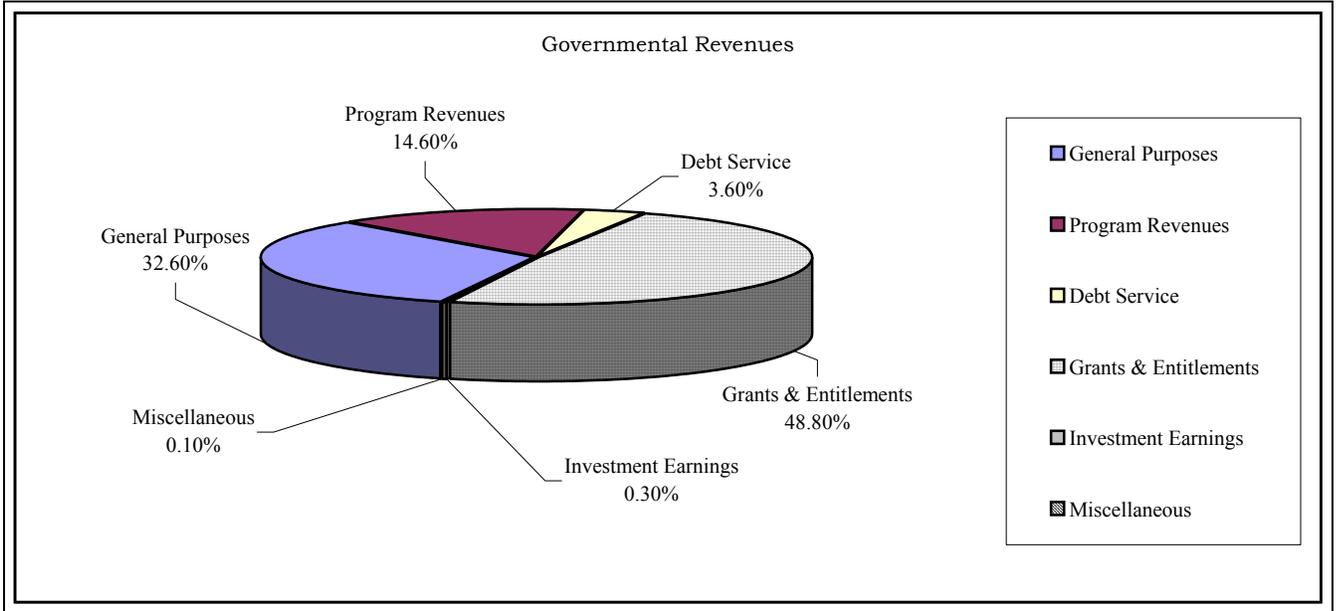
James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the change in net assets for fiscal year 2005 compared to 2004.

Table 2
Change in Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues		
<i>Program revenues:</i>		
Charges for services	\$ 1,083,344	\$ 873,457
Operating grants, contributions and interest	769,913	680,091
Capital grants and contributions	14,030	14,223
<i>General revenues:</i>		
Property taxes	4,618,663	3,849,400
Grants and entitlements	6,226,154	6,042,434
Investment earnings	37,838	17,906
Miscellaneous	10,563	6,058
Gain on sale of capital assets	-	17,949
Total revenues	12,760,505	11,501,518
Program Expenses		
<i>Instruction:</i>		
Regular	5,568,197	5,648,933
Special	914,379	611,368
Adult/continuing	3,589	4,211
Other	2,012	123,941
<i>Support services:</i>		
Pupils	504,490	462,854
Instructional staff	419,746	443,952
Board of education	37,414	32,492
Administration	1,091,686	1,113,147
Fiscal	305,076	258,605
Operation and maintenance of plant	1,124,953	1,108,289
Pupil transportation	847,196	790,768
Central	35,930	46,078
<i>Operation non-instructional services:</i>		
Food service operations	458,668	471,564
Community services	6,817	47,224
Extracurricular activities	343,004	361,317
Interest and fiscal charges	281,658	290,447
Total expenses	11,944,815	11,815,190
Change in net assets	815,690	(313,672)
Net assets beginning of year - restated	1,811,832	2,125,504
Net assets end of year	\$ 2,627,522	\$ 1,811,832

James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 Unaudited



Governmental Activities

Several revenue sources fund our governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$4.6 million in 2005. General revenues from grants and entitlements, such as the school foundation program, generated over \$6 million. With the combination of taxes and intergovernmental funding comprising approximately 85.0 percent of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

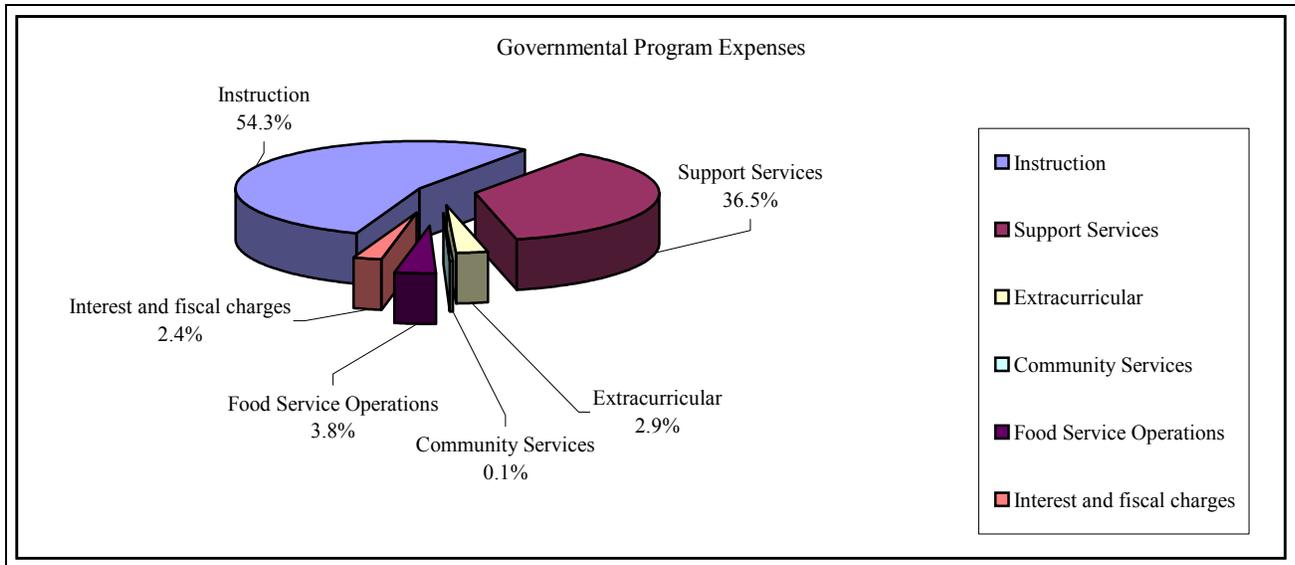
Costs directly related to the instruction of students comprised 54.0 percent of governmental program expenses.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

James A. Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 3
Governmental Activities

	<i>Total Cost of Services <u>2005</u></i>	<i>Total Cost of Services <u>2004</u></i>	<i>Net Cost of Services <u>2005</u></i>	<i>Net Cost of Services <u>2004</u></i>
Program Expenses				
<i>Instruction:</i>				
Regular	\$ 5,568,197	\$ 5,648,933	\$ (4,892,303)	\$ (5,143,203)
Special	914,379	611,368	(461,108)	(365,832)
Adult/continuing	3,589	4,211	(289)	(911)
Other	2,012	123,941	795	(115,395)
<i>Support services:</i>				
Pupils	504,490	462,854	(501,749)	(421,876)
Instructional staff	419,746	443,952	(390,682)	(351,812)
Board of education	37,414	32,492	(37,414)	(32,492)
Administration	1,091,686	1,113,147	(1,032,890)	(1,053,871)
Fiscal	305,076	258,605	(305,076)	(258,605)
Operation and maintenance of plant	1,124,953	1,108,289	(1,124,953)	(1,108,289)
Pupil transportation	847,196	790,768	(833,166)	(776,545)
Central	35,930	46,078	5,838	(7,994)
<i>Operation non-instructional services:</i>				
Food service operations	458,668	471,564	18,431	(43,236)
Community services	6,817	47,224	2,214	(2,490)
Extracurricular activities	343,004	361,317	(243,518)	(274,421)
Interest and fiscal charges	281,658	290,447	(281,658)	(290,447)
<i>Total expenses</i>	<u>\$ 11,944,815</u>	<u>\$ 11,815,190</u>	<u>\$ (10,077,528)</u>	<u>\$ (10,247,419)</u>



James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 Unaudited

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$12,776,193, and total expenditures and other financing uses were \$11,844,713. The most significant change in fund balance occurred in the general fund with an increase in fund balance of \$892,442. The increase is largely attributed to collection of the 6.02 mill emergency property tax levy approved by the voters.

General Fund Budgeting Highlights

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

During fiscal year 2005, the School District amended its general fund budget, however not significantly. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue and other financing sources estimate was \$10,797,599, which was higher than the original budget estimate of \$9,978,820, the difference is partially explained by budgeting for the emergency levy. Actual revenues reported were only \$34,464 lower than the final estimate. The final budget did not require any changes since these additional revenues were not appropriated for in the current year.

The original expenditures and other financing uses estimate of \$10,549,998 was revised slightly over the fiscal year with a final appropriated amount equal to \$10,621,222. Actual expenditures and other financing uses reported were \$295,042 less than the final appropriation resolution passed by the Board. There were no significant events that caused this difference.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$8,149,083 invested in capital assets. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004:

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<i>Land</i>	\$ 118,773	\$ 118,773
<i>Buildings</i>	7,434,985	7,640,152
<i>Furniture, fixtures and equipment</i>	232,335	286,773
<i>Vehicles</i>	<u>362,990</u>	<u>458,854</u>
<i>Total capital assets</i>	<u>\$ 8,149,083</u>	<u>\$ 8,504,552</u>

James A. Garfield Local School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005
 Unaudited

During the year there was a lack of any significant purchases. The total decrease in the value of assets as compared to the prior year was primarily due to the recognition of current year depreciation expense of \$380,328. The School District reviewed their capital assets and noted capital assets owned by the School District that were not recorded in the previous year. These assets mainly consisted of school buses and equipment which resulted in a net restatement of \$27,865 to net assets. See Note 8 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2005 the School District had \$5,939,929 in outstanding debt and capital leases with \$231,870 due within one year. This balance reflected a reduction of \$220,850 from the previous year's balance of \$6,214,779. Table 5 summarizes the bonds and capital lease obligations outstanding as fiscal year end:

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<i>School improvement bonds</i>	\$ 5,939,992	\$ 6,144,992
<i>Capital lease</i>	<u>53,937</u>	<u>69,787</u>
<i>Total outstanding</i>	<u><u>5,993,929</u></u>	<u><u>6,214,779</u></u>

At June 30, 2005, the School District's overall legal debt margin was \$8,645,307 with an unvoted debt margin of \$158,166. The School District is not currently rated by Standard & Poor's or Moody's Investors Service. See Note 14 and 15, to the basic financial statements for details on the School District's debt.

Current Issues Affecting Financial Condition

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

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

James A.Garfield Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

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

Contacting the School District's Financial Management

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

James A. Garfield Local School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 1,717,577
Cash and cash equivalents:	
In segregated accounts	4,550
Receivables:	
Taxes	4,950,482
Accounts	9,072
Intergovernmental	76,305
Prepaid items	9,552
Inventory held for resale	13,875
Materials and supplies inventory	30,192
Capital assets:	
Land	118,773
Depreciable capital assets, net	8,030,310
Total assets	14,960,688
<u>Liabilities:</u>	
Accounts payable	44,781
Accrued wages	1,005,484
Intergovernmental payable	281,137
Accrued interest payable	22,868
Deferred revenue	4,411,127
Long-term liabilities:	
Due within one year	320,695
Due in more than one year	6,247,074
Total liabilities	12,333,166
<u>Net assets:</u>	
Invested in capital assets, net of related debt	2,155,154
Restricted for:	
Debt service	232,322
Other purposes	66,973
Unrestricted	173,073
Total net assets	\$ 2,627,522

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues				Net (Expense)
Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Governmental Activities	Revenues and Changes in Net Assets
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 5,568,197	\$ 581,599	\$ 94,295	\$ -	\$ (4,892,303)
Special	914,379	2,238	451,033	-	(461,108)
Adult/continuing	3,589	-	3,300	-	(289)
Other	2,012	-	2,807	-	795
Support services:					
Pupils	504,490	-	2,741	-	(501,749)
Instructional staff	419,746	-	29,064	-	(390,682)
Board of education	37,414	-	-	-	(37,414)
Administration	1,091,686	46,796	12,000	-	(1,032,890)
Fiscal	305,076	-	-	-	(305,076)
Operation and maintenance of plant	1,124,953	-	-	-	(1,124,953)
Pupil transportation	847,196	-	-	14,030	(833,166)
Central	35,930	36,768	5,000	-	5,838
Operation of non-instructional services:					
Food service operations	458,668	316,457	160,642	-	18,431
Community services	6,817	-	9,031	-	2,214
Extracurricular activities	343,004	99,486	-	-	(243,518)
Interest and fiscal charges	281,658	-	-	-	(281,658)
Total governmental activities	\$ 11,944,815	\$ 1,083,344	\$ 769,913	\$ 14,030	(10,077,528)
<u>General Revenues:</u>					
Property taxes levied for:					
General purposes					4,153,791
Debt service					464,872
Grants and entitlements not restricted to specific programs					6,226,154
Investment earnings					37,838
Miscellaneous					10,563
Total general revenues					10,893,218
Change in net assets					815,690
Net assets beginning of year, as restated Note 3					1,811,832
Net assets end of year					\$ 2,627,522

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 1,325,759	\$ 201,609	\$ 139,547	\$ 1,666,915
Cash and cash equivalents:				
In segregated accounts	-	-	4,550	4,550
Receivables:				
Taxes	4,493,063	457,419	-	4,950,482
Accounts	1,388	-	7,684	9,072
Intergovernmental	8,112	-	68,193	76,305
Interfund	10,853	-	-	10,853
Inventory held for resale	-	-	13,875	13,875
Materials and supplies inventory	29,289	-	903	30,192
Prepaid items	9,552	-	-	9,552
Restricted assets:				
Equity in pooled cash and cash equivalents	50,662	-	-	50,662
Total assets	<u>\$ 5,928,678</u>	<u>\$ 659,028</u>	<u>\$ 234,752</u>	<u>\$ 6,822,458</u>
<u>Liabilities:</u>				
Accounts payable	\$ 32,022	\$ -	\$ 12,759	\$ 44,781
Accrued wages	908,730	-	96,754	1,005,484
Interfund payable	-	-	10,853	10,853
Intergovernmental payable	255,204	-	25,933	281,137
Deferred revenue	4,158,520	417,029	3,358	4,578,907
Total liabilities	<u>5,354,476</u>	<u>417,029</u>	<u>149,657</u>	<u>5,921,162</u>
<u>Fund balances:</u>				
Reserved for:				
Encumbrances	119,368	-	31,166	150,534
Budget stabilization	50,662	-	-	50,662
Unreserved, undesignated, reported in:				
General fund	404,172	-	-	404,172
Special revenue funds	-	-	53,929	53,929
Debt service fund	-	241,999	-	241,999
Total fund balances	<u>574,202</u>	<u>241,999</u>	<u>85,095</u>	<u>901,296</u>
Total liabilities and fund balances	<u>\$ 5,928,678</u>	<u>\$ 659,028</u>	<u>\$ 234,752</u>	<u>\$ 6,822,458</u>

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balances	\$	901,296
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,149,083
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 158,400	
Intergovernmental	9,380	
Total	167,780	167,780
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(22,868)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (5,939,992)	
Compensated absences	(573,840)	
Capital leases	(53,937)	
Total	(6,567,769)	(6,567,769)
Net assets of governmental activities	\$	2,627,522

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Taxes	\$ 4,156,852	\$ 468,349	\$ -	\$ 4,625,201
Intergovernmental	6,182,000	52,163	771,421	7,005,584
Interest	37,838	-	611	38,449
Tuition and fees	563,169	-	20,068	583,237
Extracurricular activities	-	-	131,213	131,213
Gifts and donations	-	-	12,552	12,552
Charges for services	-	-	311,338	311,338
Miscellaneous	11,063	-	57,556	68,619
Total revenues	<u>10,950,922</u>	<u>520,512</u>	<u>1,304,759</u>	<u>12,776,193</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,203,155	-	137,842	5,340,997
Special	606,728	-	307,481	914,209
Adult/continuing	-	-	3,589	3,589
Other	-	-	2,012	2,012
Support services:				
Pupils	455,381	-	48,897	504,278
Instructional staff	274,668	-	140,976	415,644
Board of education	37,414	-	-	37,414
Administration	1,030,907	-	70,145	1,101,052
Fiscal	300,214	8,883	-	309,097
Operation and maintenance of plant	1,102,354	-	-	1,102,354
Pupil transportation	747,884	-	-	747,884
Central	-	-	35,930	35,930
Operation of non-instructional services:				
Food Service operations	-	-	449,706	449,706
Community services	-	-	6,817	6,817
Extracurricular activities	253,380	-	87,187	340,567
Capital outlay	26,590	-	3,399	29,989
Debt service:				
Principal retirement	15,850	205,000	-	220,850
Interest and fiscal charges	3,914	278,410	-	282,324
Total expenditures	<u>10,058,439</u>	<u>492,293</u>	<u>1,293,981</u>	<u>11,844,713</u>
Excess of revenues over (under) expenditures	<u>892,483</u>	<u>28,219</u>	<u>10,778</u>	<u>931,480</u>
<u>Other financing sources (uses):</u>				
Transfers in	-	-	41	41
Transfers out	(41)	-	-	(41)
Total other financing sources (uses)	<u>(41)</u>	<u>-</u>	<u>41</u>	<u>-</u>
Net change in fund balances	892,442	28,219	10,819	931,480
Fund balances beginning of year, as restated	(318,240)	213,780	74,276	(30,184)
Fund balances (deficits) end of year	<u>\$ 574,202</u>	<u>\$ 241,999</u>	<u>\$ 85,095</u>	<u>\$ 901,296</u>

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 931,480

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

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

In the current period, these amounts are:

Capital asset additions	\$ 29,989	
Depreciation expense	(380,328)	
Excess of capital outlay over depreciation expense		(350,339)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain of loss is reported for each disposal:

Capital assets at cost	33,781	
Accumulated depreciation	(28,651)	
Book value		(5,130)

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

Property taxes	\$ (6,538)	
Intergovernmental	(8,650)	
Net change in deferred revenues during the year		(15,188)

Repayment of debt and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 220,850

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

Decrease in compensated absences	\$ 33,351	
Decrease in accrued interest	666	
Total additional expenditures		34,017

Change in net assets of governmental activities \$ 815,690

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 3,414,660	\$ 3,942,188	\$ 3,941,646	\$ (542)
Intergovernmental	6,025,751	6,188,165	6,179,910	(8,255)
Interest	20,000	38,500	37,838	(662)
Tuition and fees	509,000	555,746	563,057	7,311
Miscellaneous	8,409	4,500	4,043	(457)
Total revenues	<u>9,977,820</u>	<u>10,729,099</u>	<u>10,726,494</u>	<u>(2,605)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	5,375,078	5,377,389	5,290,804	86,585
Special	599,281	638,980	612,651	26,329
Support services:				
Pupils	452,400	464,126	450,913	13,213
Instructional staff	355,429	353,929	311,773	42,156
Board of education	23,170	42,684	36,869	5,815
Administration	1,124,811	1,125,482	1,100,435	25,047
Fiscal	276,485	307,442	300,837	6,605
Operation and maintenance of plant	1,208,166	1,210,530	1,151,981	58,549
Pupil transportation	757,678	804,842	782,295	22,547
Extracurricular activities	272,500	264,127	255,934	8,193
Total expenditures	<u>10,444,998</u>	<u>10,589,531</u>	<u>10,294,492</u>	<u>295,039</u>
Excess of revenues over (under) expenditures	<u>(467,178)</u>	<u>139,568</u>	<u>432,002</u>	<u>292,434</u>
<u>Other financing sources (uses):</u>				
Proceeds from the sale of capital assets	1,000	5,500	5,244	(256)
Refund of prior year expenditures	-	500	500	-
Advances in	-	62,500	30,897	(31,603)
Advances out	(75,000)	(31,650)	(31,647)	3
Transfers out	(30,000)	(41)	(41)	-
Total other financing sources (uses)	<u>(104,000)</u>	<u>36,809</u>	<u>4,953</u>	<u>(31,856)</u>
Net change in fund balance	(571,178)	176,377	436,955	260,578
Fund balance at beginning of year	556,651	556,651	556,651	-
Prior year encumbrances appropriated	270,920	270,920	270,920	-
Fund balance at end of year	<u>\$ 256,393</u>	<u>\$ 1,003,948</u>	<u>\$ 1,264,526</u>	<u>\$ 260,578</u>

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 15,636</u>
<u>Liabilities:</u>	
Accounts payable	240
Due to students	<u>15,396</u>
Total liabilities	<u>\$ 15,636</u>

See accompanying notes to the basic financial statements.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's four instructional/support facilities staffed by 66 non-certificated and 105 certificated full time teaching personnel, including 9 administrators, who provide services to 1,577 students and other community members.

Reporting Entity

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

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

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. Based on the above criteria, the School District had no component units at June 30, 2005.

The School District is associated with the Stark Portage Area Computer Consortium and the Portage County Schools Consortium, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 16.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

James A. Garfield Local School District

Notes to the Basic Financial Statements For the fiscal year ended June 30, 2005

B. Fund accounting

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

Governmental Funds

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

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

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

Fiduciary Fund Types

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

C. Measurement focus

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

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

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

D. Basis of accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes (should not include delinquent) for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants, Contributions and Interest" program revenue account.

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

E. Budgetary data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board during the year.

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

F. Cash and investments

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

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

G. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

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

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

I. Restricted assets

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

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

J. Capital assets

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

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

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

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

K. Interfund balances

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

L. Compensated absences

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

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

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

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

M. Accrued liabilities and long-term obligations

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

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

N. Net assets

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

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

O. Fund balance reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of the fund balance that is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and budget stabilization.

P. Interfund transactions

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

Q. Estimates

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE AND NET ASSETS

A. Changes in accounting principles

For fiscal year 2005, the School District has implemented GASB Statement No. 40, "Deposits and Investment Risk Disclosures"; GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers" and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits and Other Than Pensions.

B. Restatement of fund balances and net assets

As a result of the implementation of the Technical Bulletin and GASB Statement No. 45, certain beginning fund balances were required to be restated. These restatements involve reporting pension and other postemployment benefit liabilities on the governmental fund financial statements where beforehand were exclusively reported on the government-wide financial statements.

Following the close of the previous fiscal year, an inventory of capital assets was conducted and a few assets were revealed to be erroneously omitted. As a result of these errors, a restatement of the capital asset balances, accumulated depreciation and net assets is required.

The restatement of fund balance and net assets is presented below:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<i>Fund balances at June 30, 2004</i>	\$ (225,380)	\$ 213,780	\$ 86,687	\$ 75,087
<i>Restatement of intergovernmental payable</i>	(92,860)	-	(12,411)	(105,271)
<i>Restated fund balances at July 1, 2004</i>	<u>\$ (318,240)</u>	<u>\$ 213,780</u>	<u>\$ 74,276</u>	<u>\$ (30,184)</u>
<i>Governmental Activities</i>				
<i>Net assets at June 30, 2004</i>	\$ 1,783,967			
<i>Restatement of capital assets, net of depreciation</i>	27,865			
<i>Restated net assets at July 1, 2004</i>	<u>\$ 1,811,832</u>			

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

<i>Net Change in Fund Balance</i>	
	<i>General</i>
<i>GAAP basis</i>	\$ 892,442
<i>Revenue accruals</i>	(187,787)
<i>Expenditure accruals</i>	(155,806)
<i>Encumbrances (Budget basis)</i>	
<i>Outstanding at year end</i>	<u>(111,894)</u>
<i>Budget basis</i>	<u>\$ 436,955</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

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

Interim moneys may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

A. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, the carrying amount of the School District's deposits was \$ (144,882). The School District's bank balance of \$15,100 was covered by FDIC insurance.

B. Investments

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

Investment type	Fair Value	Maturity	Rating
Repurchase agreements	\$ 25,936	Daily	N/A ⁽¹⁾
STAROhio	1,856,709	N/A	AAAm ⁽²⁾
	\$ 1,882,645		

⁽¹⁾ Underlying securities are exempt.

⁽²⁾ Standard and Poor's rating

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$37,838, which includes \$10,155 assigned from other School District funds.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$25,936 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

James A. Garfield Local School District

Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned STAROhio an AAAM rating. The School District's investment policy requires certain credit ratings for some investments as allowed by state law.

NOTE 6 - PROPERTY TAXES

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

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

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of year end. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 was \$340,566 in the general fund and \$40,390 in the Bond Retirement debt service fund. These advances are recognized as revenue on the fund financial statements.

James A. Garfield Local School District

Notes to the Basic Financial Statements

For the fiscal year ended June 30, 2005

On November 2, 2004 the voters of the School District approved an additional tax levy for 6.02 mills. The levy will generate \$925,000 each year for a period of five years for the purpose of providing for the emergency requirements of the School District. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2003 Assessed Value</u>	<u>2004 Assessed Value</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 123,518,805	\$ 127,044,854
Commercial and Industrial	15,052,330	15,338,820
Public Utilities	21,640	21,460
 <u>Tangible Personal Property</u>		
General	8,616,974	9,226,880
Public Utilities	6,642,700	6,534,400
Total	<u>\$ 153,852,449</u>	<u>\$ 158,166,414</u>

NOTE 7 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts, interfund 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 intergovernmental receivables at June 30, 2005, are presented below:

	<u>Amount</u>
General	\$ 8,112
<u>Special revenue funds:</u>	
Title VI-B	31,544
Title I	15,250
Title VI	8,189
Drug free school grant	3,668
Improving teacher quality	9,542
Total intergovernmental receivable	<u>\$ 76,305</u>

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

<u>Governmental Activities</u>	<i>Restated Balance June 30, 2004</i>	<i>Additions</i>	<i>Disposals</i>	<i>Balance June 30, 2005</i>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 118,773	\$ -	\$ -	\$ 118,773
<i>Total capital assets, not being depreciated</i>	<u>118,773</u>	<u>-</u>	<u>-</u>	<u>118,773</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	240,774	-	-	240,774
Buildings	10,163,991	-	-	10,163,991
Furniture, fixtures and equipment	797,280	26,489	(33,781)	789,988
Vehicles	989,757	3,500	-	993,257
<i>Total capital assets, being depreciated</i>	<u>12,191,802</u>	<u>29,989</u>	<u>(33,781)</u>	<u>12,188,010</u>
<i>Less: Accumulated depreciation</i>				
Land improvements	(240,774)	-	-	(240,774)
Buildings	(2,523,839)	(205,167)	-	(2,729,006)
Furniture, fixtures and equipment	(510,507)	(75,797)	28,651	(557,653)
Vehicles	(530,903)	(99,364)	-	(630,267)
<i>Total accumulated depreciation</i>	<u>(3,806,023)</u>	<u>(380,328)</u>	<u>28,651</u>	<u>(4,157,700)</u>
<i>Total capital assets being depreciated, net</i>	<u>8,385,779</u>	<u>(350,339)</u>	<u>(5,130)</u>	<u>8,030,310</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 8,504,552</u>	<u>\$ (350,339)</u>	<u>\$ (5,130)</u>	<u>\$ 8,149,083</u>

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
<i>Regular</i>	\$ 210,001
<i>Special</i>	4,579
<i>Support services:</i>	
<i>Pupils</i>	982
<i>Instructional staff</i>	11,776
<i>Administration</i>	27,079
<i>Fiscal</i>	854
<i>Operation and maintenance of plant</i>	18,861
<i>Pupil transportation</i>	95,468
<i>Extracurricular activities</i>	3,238
<i>Food service operations</i>	7,490
	\$ 380,328

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2005 consisted of the following:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
<i>General fund</i>	\$ 10,853	\$ -
<i>Nonmajor governmental funds</i>	-	10,853
	\$ 10,853	\$ 10,853

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2005, all interfund loans outstanding are anticipated to be repaid in fiscal year 2006.

NOTE 10 - INTERFUND TRANSFERS

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

James A. Garfield Local School District

Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

Interfund transfers for the year ended June 30, 2005, consisted of the following:

	<u>Transfers From</u>
<u>Transfers To</u>	<u>General</u>
	<u>Fund</u>
<i>Nonmajor funds</i>	\$ <u>41</u>

During the fiscal year, the general fund made transfers in the total amount of \$41 to a nonmajor special revenue fund. The transfer to these funds were to support programs accounted for in these funds.

NOTE 11 - RISK MANAGEMENT

A. Property, liability and employee benefit insurance

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

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

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

B. Workers' Compensation

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

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2004, 9.09% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$173,354, \$160,348, and \$61,009, respectively; 36.6% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$109,933, representing the unpaid contribution for fiscal year 2005, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

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

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

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2004, 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$651,545, \$636,123, and \$463,587, respectively; 83% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$108,658, representing the unpaid contribution for fiscal year 2005, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2005 were \$7,469 made by the School District and \$12,362 made by the plan members.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$50,119 during the 2005 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.1 billion at June 30, 2004 (the latest information available). For the year ended June 30, 2004 (the latest information available), net health care costs paid by the STRS were \$268,739,000 and eligible benefit recipients totaled 111,853.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced 50% for those who apply. For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll, a decrease of 1.48% from the 2004 fiscal year.

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 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2% of each employer's SERS salaries. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$87,057, which includes a surcharge of \$30,803 during the 2005 fiscal year.

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

NOTE 14 - CAPITALIZED LEASES - LESSEE DISCLOSURE

The School District, in prior years, has entered into capitalized leases for the acquisition of copiers. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements of governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$84,679 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current fiscal year totaled \$15,850. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end.

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

<i>Fiscal Year</i>	<i>Lease Payments</i>
2006	19,764
2007	19,764
2008	<u>19,764</u>
<i>Total minimum lease payments</i>	59,292
<i>Less: amount representing interest</i>	<u>(5,355)</u>
<i>Present value of minimum lease payments</i>	<u>\$ 53,937</u>

NOTE 15 - LONG-TERM OBLIGATIONS

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

	<i>Balance at 7/1/2004</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at 6/30/2005</i>	<i>Due In One Year</i>
<i>Governmental Activities</i>					
<i>General obligation bonds</i>					
<i>General obligation bonds 3.80%-5.0%</i>	\$ 6,144,992	\$ -	\$ (205,000)	\$ 5,939,992	\$ 215,000
<i>Other liabilities</i>					
<i>Capital leases</i>	69,787	-	(15,850)	53,937	16,870
<i>Compensated absences</i>	<u>607,191</u>	<u>119,317</u>	<u>(152,668)</u>	<u>573,840</u>	<u>88,825</u>
<i>Total other liabilities</i>	<u>676,978</u>	<u>119,317</u>	<u>(168,518)</u>	<u>627,777</u>	<u>105,695</u>
<i>Governmental activities long-term liabilities</i>	<u>\$ 6,821,970</u>	<u>\$ 119,317</u>	<u>\$ (373,518)</u>	<u>\$ 6,567,769</u>	<u>\$ 320,695</u>

In fiscal year 1999, the School District issued bonds for improvement and construction of classroom facilities in the amount of \$6,952,992. Principal payments are due each year on December 1 until 2024. For 2006 and 2007 the bonds are capital appreciation bonds with an estimated interest rate of 12.902%. The remaining years' interest payments will be based on increasing yearly interest rates ranging from 3.25% up to 5.00% in 2020 and beyond. All bonds are general obligation bonds for which the full faith and credit of the School District is pledged. These bonds will be paid from property taxes in the bond retirement debt service fund.

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

Principal and interest requirements to retire the long-term debt obligations outstanding at June 30, 2005 are as follows:

<u>Fiscal Year Ending</u>	<u>General Obligation Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2006	215,000	270,166	485,166
2007	85,885	405,035	490,920
2008	74,107	411,813	485,920
2009	225,000	261,139	486,139
2010	235,000	251,364	486,364
2011-2015	1,330,000	1,088,572	2,418,572
2016-2020	1,660,000	739,075	2,399,075
2021-2025	2,115,000	274,625	2,389,625
<i>Total</i>	<u>\$ 5,939,992</u>	<u>\$ 3,701,789</u>	<u>\$ 9,641,781</u>

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC) is the computer service organization or Data Acquisition Site (DAS) used by the School District. SPARCC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All Districts in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating districts governs SPARCC. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the general fund. During the fiscal year, the School District contributed \$24,641 to SPARCC.

Portage County School Consortium is an insurance group-purchasing consortium made up of thirteen school districts in Portage County. All member districts pay an insurance premium directly to the consortium. The School District paid \$1,598,715 in the form of health care premiums to the consortium for the current fiscal year.

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

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 17 - CONTINGENCIES

A. Grants

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

B. School Funding

On December 11, 2004, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

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

NOTE 18 - STATUTORY RESERVES

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

	<i>Textbook Reserve</i>	<i>Capital Maintenance Reserve</i>	<i>Budget Stabilization Reserve</i>	<i>Total</i>
<i>Set-aside cash balance as of June 30, 2004</i>	\$ (252,305)	\$ -	\$ 50,662	\$ (201,643)
<i>Current year set-aside requirement</i>	220,694	220,694	-	441,388
<i>Qualifying disbursements</i>	<u>(107,581)</u>	<u>(425,689)</u>	<u>-</u>	<u>(533,270)</u>
<i>Total</i>	<u>\$ (139,192)</u>	<u>\$ (204,995)</u>	<u>\$ 50,662</u>	<u>(293,525)</u>
<i>Balance carried forward future years</i>	<u>\$ (139,192)</u>			

James A. Garfield Local School District
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2005

NOTE 19 - ACCOUNTABILITY

As of June 30, 2005, five funds had deficit fund balances. These deficits were caused by the application of GAAP. The general fund provides transfers to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The School District is monitoring these funds and is considering possible various options. The following special revenue funds had deficit balances as follows:

<u>Fund</u>	<u>Amount</u>
<i>Disadvantaged Pupil Impact Aid (DPIA)</i>	\$ 4,530
<i>Student Intervention</i>	3,329
<i>IDEA Part B</i>	4,587
<i>Improving Teacher Quality</i>	156
<i>Miscellaneous Federal Grants</i>	644

NOTE 20 - REQUIRED SUPPLEMENTARY INFORMATION (RSI) IS OMITTED

For the fiscal year ended, the School District was required to implement GASB Technical Bulletin No. 2004-2. In addition to the implementation of this guidance, the School District simultaneously implemented GASB Statement No. 45, as recommended by the GASB. This Statement requires employers to present as required supplementary information (RSI) schedules of funding progress and employer contributions for the plan as a whole if a plan financial report, prepared in accordance with GASB Statement 43 is not issued and made publicly available and the plan is not included in the financial report of a public employee retirement system or another entity. SERS and STRS have not issued a financial report in accordance with the statement and have not conducted a valuation of their plans, as they were not required to implement the statement as of the date of this report. Therefore, RSI is unavailable to the School District and it does not follow these notes to the financial statements.

November 18, 2005

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of James A. Garfield Local School District as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered James A. Garfield Local School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

November 18, 2005

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

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

Compliance

We have audited the compliance of James A. Garfield Local Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to the School District's major program for the year ended June 30, 2005. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of James A. Garfield Local School District's management. Our responsibility is to express an opinion on James A. Garfield Local School's compliance based on our audit.

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

In our opinion, James A. Garfield Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major program for the year ended June 30, 2005. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards – Non GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the James A. Garfield Local Schools as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 18, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Rea & Associates, Inc.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Expenditures
U. S. Department of Education (Passed Through Ohio Department of Education):					
Title I	84.010	C1-S1-2004	\$ 7,635	\$ 25,777	\$ 0
Title I	84.010	C1-S1-2005	128,936	119,636	0
Total Title I			<u>136,570</u>	<u>145,413</u>	<u>0</u>
<i>Special Education Cluster</i>					
IDEA-B	84.027	6B-PB-2005	11,000	14,312	0
IDEA-B {C}	84.027	6B-SD-2004P	(438)	1,913	0
IDEA-B	84.027	6B-SD-2005P	22,500	22,500	0
IDEA-B	84.027	6B-SF-2004	5,377	26,776	0
IDEA-B	84.027	6B-SF-2005	232,914	222,943	0
Total IDEA-B			<u>271,353</u>	<u>288,444</u>	<u>0</u>
Preschool Grants	84.173	PG-S1-2005P	900	900	0
Preschool Grants	84.173	PG-S1-2004P	4,417	4,417	0
Total Preschool Grants			<u>5,317</u>	<u>5,317</u>	<u>0</u>
<i>Total Special Education Cluster</i>			<u>276,670</u>	<u>293,761</u>	<u>0</u>
Title IV-A Safe and Drug-Free Schools	84.186	DR-S1-2003	0	1,368	0
Title IV-A Safe and Drug-Free Schools {C}	84.186	DR-S1-2004	(924)	737	0
Title IV-A Safe and Drug-Free Schools	84.186	DR-S1-2005	2,606	2,787	0
Total Safe and Drug-Free Schools and Communities			<u>1,682</u>	<u>4,893</u>	<u>0</u>
Teacher Mini Grant	84.276	G2-SP-01	0	0	0
Total Teacher Mini Grant			<u>0</u>	<u>0</u>	<u>0</u>
Eisenhower Professional Development	84.281	MS-S1-02	0	0	0
Total Eisenhower Professional Development			<u>0</u>	<u>0</u>	<u>0</u>
Title V Innov	84.298	C2-S1-2003	0	(250)	0
Title V Innov {C}	84.298	C2-S1-2004	(2,198)	450	0
Title V Innov	84.298	C2-S1-2005	5,626	5,983	0
Total Title V			<u>3,428</u>	<u>6,183</u>	<u>0</u>
Title II-D Technology	84.318	TJ-S1-2003		1,650	0
Title II-D Technology	84.318	TJ-S1-2004	1,760	1,479	0
Title II-D Technology	84.318	TJ-S1-2005	3,810	3,306	0
Total Title II-D			<u>5,570</u>	<u>6,435</u>	<u>0</u>
Title II-A {C}	84.367	TR-S1-2004	(278)	11,644	0
Title II-A	84.367	TR-S1-2005	69,796	65,316	0
Total Title II-A			<u>69,519</u>	<u>76,960</u>	<u>0</u>
Total Department of Education			<u>493,439</u>	<u>533,645</u>	<u>0</u>
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Nutrition Cluster:					
Food Distribution Program (A) (B)	10.550		25,719		25,719
School Breakfast Program	10.553		22,636	22,636	0
National School Lunch Program (A)	10.555		146,969	146,969	0
Total Department of Agriculture: Nutrition Cluster			<u>195,324</u>	<u>169,605</u>	<u>25,719</u>
Total Federal Assistance			<u>\$ 688,763</u>	<u>\$ 703,250</u>	<u>\$ 25,719</u>

(A) Government commodities are reported at the fair market value of the commodities received and disbursed.

(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

{C} Refunded Receipt

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Special Education Cluster #84.027 & 84.173
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



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Betty Montgomery**

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 02, 2006**