



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

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, Portage County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 James A. Garfield Local School District, Portage County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and No. 65, "Items Previously Reported as Assets and Liabilities." We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

October 11, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The management's discussion and analysis of the James A. Garfield Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net position of governmental activities decreased \$647,247 which represents a 16.18% decrease from 2012.
- General revenues accounted for \$10,461,081 in revenue or 76.88% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,145,274 or 23.12% of total revenues of \$13,606,355.
- The District had \$14,253,602 in expenses related to governmental activities; \$3,145,274 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,461,081 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$11,873,473 in revenues and other financing sources and \$12,578,172 in expenditures and other financing uses. During fiscal year 2013, the general fund's fund balance decreased \$704,699 from a balance of \$1,915,034 to \$1,210,335.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation of non-instructional services, and extracurricular activities.

The District's statement of net position and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position on page 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-50 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position for 2013 and 2012. The net position of the District at June 30, 2012 has been restated as described in Note 3.A.

	Net Position	
	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
<u>Assets</u>		
Current and other assets	\$ 7,697,622	\$ 8,432,627
Capital assets, net	<u>6,924,819</u>	<u>7,200,797</u>
Total assets	<u>14,622,441</u>	<u>15,633,424</u>
<u>Deferred outflows</u>	<u>98,762</u>	<u>107,413</u>
<u>Liabilities</u>		
Current liabilities	1,746,306	1,847,777
Long-term liabilities	<u>5,524,632</u>	<u>5,858,060</u>
Total liabilities	<u>7,270,938</u>	<u>7,705,837</u>
<u>Deferred inflows</u>	<u>4,098,232</u>	<u>4,035,720</u>
<u>Net position</u>		
Net investment in capital assets	2,321,358	2,274,156
Restricted	359,916	383,270
Unrestricted	<u>670,759</u>	<u>1,341,854</u>
Total net position	<u>\$ 3,352,033</u>	<u>\$ 3,999,280</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets and deferred outflows exceeded liabilities and deferred inflows by \$3,352,033. Of this total, \$359,916 is restricted in use.

At year-end, capital assets represented 47.04% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2013, were \$2,321,358. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

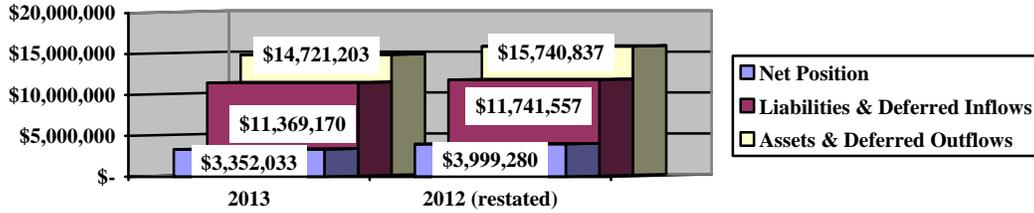
A portion of the District's net position, \$359,916, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$670,759 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The graph below presents the District's governmental activities assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2013 and June 30, 2012. The bond issuance costs expense of the District at June 30, 2012 has been restated as described in Note 3.A.

Governmental Activities



The table below shows the change in net position for fiscal year 2013 and 2012.

Change in Net Position

	Governmental Activities 2013	Governmental Activities 2012
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,789,561	\$ 1,674,686
Operating grants and contributions	1,355,713	1,402,378
General revenues:		
Property taxes	4,462,103	4,422,137
Grants and entitlements	5,936,748	6,147,424
Investment earnings	13,247	11,531
Miscellaneous	48,983	45,135
Total revenues	\$ 13,606,355	\$ 13,703,291

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Change in Net Position

	<u>Governmental Activities 2013</u>	<u>Governmental Activities 2012</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,888,816	\$ 6,782,007
Special	1,302,354	1,298,055
Other	2,656	5,581
Support services:		
Pupil	626,893	698,738
Instructional staff	624,699	585,150
Board of education	36,810	34,533
Administration	1,006,822	1,025,815
Fiscal	327,353	310,799
Operations and maintenance	1,215,593	1,320,993
Pupil transportation	872,966	890,117
Central	51,597	36,347
Operations of non-instructional services:		
Other non-instructional services	10,646	8,072
Food service operations	611,741	627,036
Extracurricular activities	489,036	553,555
Interest and fiscal charges	<u>185,620</u>	<u>216,702</u>
 Total expenses	 <u>14,253,602</u>	 <u>14,393,500</u>
 Change in net position	 (647,247)	 (690,209)
Net position at beginning of year restated	<u>3,999,280</u>	<u>4,689,489</u>
Net position at end of year	<u>\$ 3,352,033</u>	<u>\$ 3,999,280</u>

Governmental Activities

Net position of the District's governmental activities decreased \$647,247. Total governmental expenses of \$14,253,602 were offset by program revenues of \$3,145,274 and general revenues of \$10,461,081. Program revenues supported 22.07% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 76.43% of total governmental revenue.

Unrestricted grants and entitlements decreased \$210,676 in fiscal year 2013 when compared to fiscal year 2012. This is due to reductions in revenue received from the State.

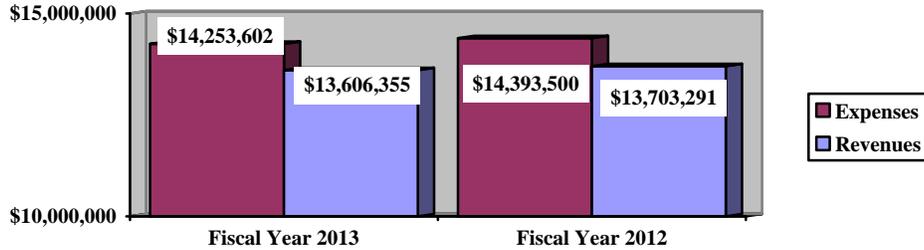
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,193,826 or 57.49% of total governmental expenses for fiscal 2013.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2013 and 2012.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The following is a comparison of 2013 and 2012.

Governmental Activities

	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Program expenses				
Instruction:				
Regular	\$ 6,888,816	\$ 5,619,959	\$ 6,782,007	\$ 5,509,131
Special	1,302,354	469,790	1,298,055	549,329
Other	2,656	2,656	5,581	5,581
Support services:				
Pupil	626,893	550,765	698,738	600,736
Instructional staff	624,699	548,877	585,150	505,951
Board of education	36,810	36,810	34,533	34,533
Administration	1,006,822	969,368	1,025,815	993,666
Fiscal	327,353	327,353	310,799	310,799
Operations and maintenance	1,215,593	1,161,268	1,320,993	1,271,167
Pupil transportation	872,966	844,892	890,117	863,204
Central	51,597	23,450	36,347	(1,841)
Operations of non-instructional services:				
Other non-instructional services	10,646	(7,897)	8,072	1,139
Food service operations	611,741	2,936	627,036	3,277
Extracurricular activities	489,036	372,481	553,555	453,062
Interest and fiscal charges	185,620	185,620	216,702	216,702
Total expenses	<u>\$ 14,253,602</u>	<u>\$ 11,108,328</u>	<u>\$ 14,393,500</u>	<u>\$ 11,316,436</u>

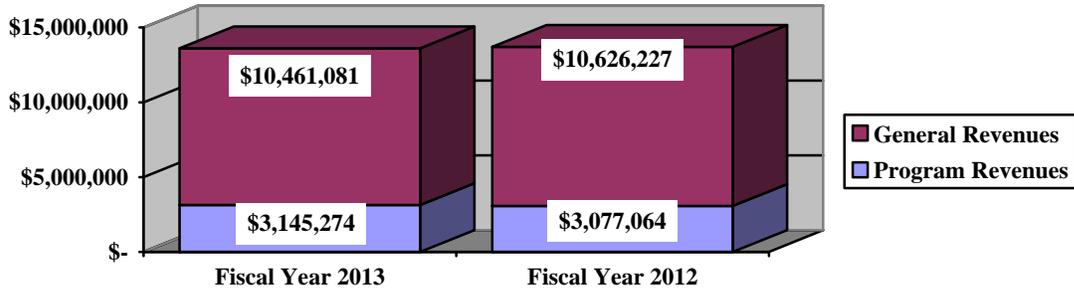
The dependence upon tax and other general revenues for governmental activities is apparent, 74.35% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.93% and 78.62% for fiscal years 2013 and 2012, respectively. The District's taxpayers and unrestricted grants from the State are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The graph below presents the District's governmental activities revenue for fiscal year 2013 and 2012.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,498,741, which is less than last year's balance of \$2,141,449. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	<u>Fund Balance June 30, 2013</u>	<u>Fund Balance June 30, 2012</u>	<u>Increase Decrease</u>	<u>Percentage Change</u>
General	\$ 1,210,335	\$ 1,915,034	\$ (704,699)	(36.80) %
Other Governmental	<u>288,406</u>	<u>226,415</u>	<u>61,991</u>	27.38 %
Total	<u>\$ 1,498,741</u>	<u>\$ 2,141,449</u>	<u>\$ (642,708)</u>	(30.01) %

General Fund

The District's general fund balance decreased \$704,699. The table that follows assists in illustrating the financial activities of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2013 <u>Amount</u>	2012 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,112,954	\$ 4,042,585	\$ 70,369	1.74 %
Tuition	1,294,177	1,190,222	103,955	8.73 %
Earnings on investments	13,247	11,552	1,695	14.67 %
Intergovernmental	6,314,763	6,548,961	(234,198)	(3.58) %
Other revenues	<u>135,662</u>	<u>126,424</u>	<u>9,238</u>	7.31 %
Total	<u>\$ 11,870,803</u>	<u>\$ 11,919,744</u>	<u>\$ (48,941)</u>	(0.41) %
<u>Expenditures</u>				
Instruction	\$ 7,630,572	\$ 7,039,554	\$ 591,018	8.40 %
Support services	4,512,410	4,638,507	(126,097)	(2.72) %
Extracurricular activities	389,000	450,268	(61,268)	(13.61) %
Capital outlay	-	175,243	(175,243)	(100.00) %
Debt service	<u>42,450</u>	<u>47,394</u>	<u>(4,944)</u>	(10.43) %
Total	<u>\$ 12,574,432</u>	<u>\$ 12,350,966</u>	<u>\$ 223,466</u>	1.81 %

Tax revenue increased \$70,369 or 1.74% from fiscal year 2012. Tuition revenue increased \$103,955 or 8.73% from fiscal year 2012 due to greater revenue from open enrollment. Intergovernmental revenue decreased \$234,198 or 3.58% from fiscal year 2012 due to less revenue received from the State. Instructional expenditures increased \$591,018 or 8.40% over fiscal year 2012. This is mainly due to wage and benefit increases. Overall, expenditures increased \$223,466 or 1.81% over fiscal year 2012.

General Fund Budgeting Highlights

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

During the course of fiscal year 2013, the District amended its general fund budget a few times. For the general fund, original budgeted revenues and other financing sources were \$11,465,232 and final budgeted revenues and other financing sources were \$11,800,082. Actual revenues and other financing sources for fiscal 2013 were \$11,806,444. This represents a \$6,362 increase over final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) of \$12,886,543 were unchanged in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2013 totaled \$12,609,162, which was \$277,381 below the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2013, the District had \$6,924,819 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

	Governmental Activities	
	2013	2012
Land	\$ 137,302	\$ 137,302
Land improvements	-	760
Building and improvements	6,191,514	6,381,716
Furniture, fixtures and equipment	282,333	341,271
Vehicles	313,670	339,748
Total	\$ 6,924,819	\$ 7,200,797

The overall decrease in capital assets of \$275,978 is due to depreciation expense of \$338,793 being greater than capital outlays of \$63,979 and disposals of \$1,164 (net of accumulated depreciation) in the current fiscal year.

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

Debt Administration

At June 30, 2013, the District had \$4,415,000 in general obligation bonds and \$115,654 in capital lease obligations outstanding. Of the total bond and lease obligations, \$329,442 is due within one year and \$4,201,212 is due in more than one year. The following table summarizes the bonds and leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities	
	2013	2012
General obligation bonds	\$ 4,415,000	\$ 4,700,000
Capital lease obligations	115,654	147,457
Total	\$ 4,530,654	\$ 4,847,457

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Current Financial Related Activities

The Board of Education and administration closely monitor revenue and expenditures in accordance with the financial forecast. The District has communicated to its community the reliance upon their support for its operations, and that it will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan. The community will be asked to renew the District's only emergency levy, which generates \$925,000, in November 2013. After 22 years with the District, Superintendent Charles Klamer retired effective August 1, 2013. The District hired Theodore A. Lysiak, Jr., a resident of the James A. Garfield Local School District, as the new Superintendent effective August 1, 2013.

The current economic climate is a concern for the District. On a positive note, in the current biennium budget, the State of Ohio has increased foundation funding for the District. These changes have resulted in projected increases in James A. Garfield's overall State funding by approximately 6.25% or \$367,000 in FY 2014 and an additional 4.58% or \$266,000 in FY 2015. However, funding is reliant on average daily student membership and the District has been experiencing a decline in residential enrollment. With regard to local funding, the most recent property value assessment, the 2012 reappraisal, has reduced residential property value by 1.9%.

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,680,530
Receivables:	
Taxes	4,772,838
Accounts.	2,046
Intergovernmental	157,999
Accrued interest	128
Prepayments	27,815
Materials and supplies inventory.	56,266
Capital assets:	
Nondepreciable capital assets	137,302
Depreciable capital assets, net.	6,787,517
Capital assets, net	<u>6,924,819</u>
Total assets.	<u>14,622,441</u>
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	<u>98,762</u>
 Liabilities:	
Accounts payable.	43,214
Accrued wages and benefits payable.	1,262,530
Compensated absences payable.	121,547
Pension obligation payable.	263,469
Intergovernmental payable	40,829
Accrued interest payable	14,717
Long-term liabilities:	
Due within one year.	418,386
Due in more than one year.	5,106,246
Total liabilities	<u>7,270,938</u>
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year. . .	<u>4,098,232</u>
 Net position:	
Net investment in capital assets	2,321,358
Restricted for:	
Debt service.	267,900
Locally funded programs	5,250
State funded programs.	10
Federally funded programs	12,085
Student activities	43,701
Other purposes	30,970
Unrestricted	670,759
Total net position.	<u><u>\$ 3,352,033</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 6,888,816	\$ 1,198,114	\$ 70,743	\$ (5,619,959)
Special	1,302,354	146,724	685,840	(469,790)
Other	2,656	-	-	(2,656)
Support services:				
Pupil	626,893	-	76,128	(550,765)
Instructional staff	624,699	-	75,822	(548,877)
Board of education	36,810	-	-	(36,810)
Administration	1,006,822	-	37,454	(969,368)
Fiscal	327,353	-	-	(327,353)
Operations and maintenance	1,215,593	15,756	38,569	(1,161,268)
Pupil transportation	872,966	5,561	22,513	(844,892)
Central	51,597	28,147	-	(23,450)
Operation of non-instructional services:				
Other non-instructional services	10,646	-	18,543	7,897
Food service operations	611,741	278,704	330,101	(2,936)
Extracurricular activities	489,036	116,555	-	(372,481)
Interest and fiscal charges	185,620	-	-	(185,620)
Totals	<u>\$ 14,253,602</u>	<u>\$ 1,789,561</u>	<u>\$ 1,355,713</u>	<u>(11,108,328)</u>
General revenues:				
Property taxes levied for:				
General purposes				4,054,721
Debt service				407,382
Grants and entitlements not restricted to specific programs				
Investment earnings				5,936,748
Miscellaneous				13,247
				<u>48,983</u>
Total general revenues				<u>10,461,081</u>
Change in net position				(647,247)
Net position at beginning of year (restated) .				<u>3,999,280</u>
Net position at end of year				<u>\$ 3,352,033</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 2,366,262	\$ 314,268	\$ 2,680,530
Receivables:			
Taxes.	4,338,345	434,493	4,772,838
Accounts	804	1,242	2,046
Intergovernmental.	37,269	120,730	157,999
Accrued interest	128	-	128
Interfund loans	18,320	-	18,320
Prepayments.	27,801	14	27,815
Materials and supplies inventory.	51,353	4,913	56,266
Due from other funds	28,525	-	28,525
Total assets	<u>\$ 6,868,807</u>	<u>\$ 875,660</u>	<u>\$ 7,744,467</u>
Liabilities:			
Accounts payable	\$ 42,998	\$ 216	\$ 43,214
Accrued wages and benefits payable	1,158,523	104,007	1,262,530
Compensated absences payable	121,547	-	121,547
Pension obligation payable	263,469	-	263,469
Interfund loans payable.	-	18,320	18,320
Intergovernmental payable	39,855	974	40,829
Due to other funds	-	28,525	28,525
Total liabilities.	<u>1,626,392</u>	<u>152,042</u>	<u>1,778,434</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	3,726,293	371,939	4,098,232
Delinquent property tax revenue not available.	296,940	29,226	326,166
Other nonexchange transactions not available.	-	34,047	34,047
Miscellaneous revenue not available.	8,847	-	8,847
Total deferred inflows of resources	<u>4,032,080</u>	<u>435,212</u>	<u>4,467,292</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	51,353	4,913	56,266
Prepays.	27,801	14	27,815
Restricted:			
Debt service	-	253,391	253,391
Special education	-	932	932
Targeted academic assistance	-	644	644
Extracurricular.	-	43,701	43,701
Other purposes.	-	36,516	36,516
Committed:			
Other purposes.	11,000	-	11,000
Assigned:			
Student instruction	3,123	-	3,123
Student and staff support.	95,535	-	95,535
Extracurricular activities	67	-	67
Subsequent year's appropriations	867,191	-	867,191
Uniform school supplies	17,659	-	17,659
Other purposes.	33,709	-	33,709
Unassigned (deficit)	<u>102,897</u>	<u>(51,705)</u>	<u>51,192</u>
Total fund balances	<u>1,210,335</u>	<u>288,406</u>	<u>1,498,741</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,868,807</u>	<u>\$ 875,660</u>	<u>\$ 7,744,467</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total governmental fund balances		\$	1,498,741
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			6,924,819
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Taxes receivable	\$	326,166	
Intergovernmental receivable		42,894	
Total		369,060	369,060
Unamortized premiums on bonds issued are not recognized in the funds.			(171,569)
Unamortized amounts on refundings are not recognized in the funds.			98,762
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(14,717)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(4,415,000)	
Capital lease obligations		(115,654)	
Compensated absences		(822,409)	
Total		(5,353,063)	(5,353,063)
Net position of governmental activities		\$	3,352,033

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,112,954	\$ 414,470	\$ 4,527,424
Tuition	1,294,177	-	1,294,177
Transportation fees	5,561	-	5,561
Earnings on investments	13,247	7	13,254
Charges for services	-	278,704	278,704
Extracurricular	26,652	116,555	143,207
Classroom materials and fees	18,521	-	18,521
Other local revenues	84,928	23,135	108,063
Intergovernmental - intermediate	-	5,250	5,250
Intergovernmental - state	6,222,986	81,700	6,304,686
Intergovernmental - federal	91,777	870,019	961,796
Total revenues	<u>11,870,803</u>	<u>1,789,840</u>	<u>13,660,643</u>
Expenditures:			
Current:			
Instruction:			
Regular	6,696,795	30,443	6,727,238
Special	931,121	360,643	1,291,764
Other	2,656	-	2,656
Support services:			
Pupil	602,488	23,440	625,928
Instructional staff	560,196	77,448	637,644
Board of education	36,810	-	36,810
Administration	907,629	38,304	945,933
Fiscal	317,658	10,029	327,687
Operations and maintenance	1,187,808	-	1,187,808
Pupil transportation	848,224	1,666	849,890
Central	51,597	-	51,597
Operation of non-instructional services:			
Other non-instructional services	-	10,646	10,646
Food service operations	-	613,080	613,080
Extracurricular activities	389,000	98,711	487,711
Debt service:			
Principal retirement	31,803	285,000	316,803
Interest and fiscal charges	10,647	182,300	192,947
Total expenditures	<u>12,574,432</u>	<u>1,731,710</u>	<u>14,306,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(703,629)</u>	<u>58,130</u>	<u>(645,499)</u>
Other financing sources (uses):			
Sale of capital assets	2,670	121	2,791
Transfers in	-	3,740	3,740
Transfers (out)	(3,740)	-	(3,740)
Total other financing sources (uses)	<u>(1,070)</u>	<u>3,861</u>	<u>2,791</u>
Net change in fund balances	(704,699)	61,991	(642,708)
Fund balances at beginning of year	<u>1,915,034</u>	<u>226,415</u>	<u>2,141,449</u>
Fund balances at end of year	<u>\$ 1,210,335</u>	<u>\$ 288,406</u>	<u>\$ 1,498,741</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds \$ (642,708)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$	63,979	
Current year depreciation		(338,793)	
Total			(274,814)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.

(1,164)

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

Property taxes		(65,321)	
Intergovernmental		11,033	
Total			(54,288)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:

Bonds		285,000	
Capital leases		31,803	
Total			316,803

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:

Decrease in accrued interest payable		950	
Amortization of bond premiums		15,028	
Amortization of deferred charges		(8,651)	
Total			7,327

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

1,597

Change in net position of governmental activities \$ (647,247)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
From local sources:				
Taxes	\$ 3,236,589	\$ 3,331,116	\$ 3,331,116	\$ -
Tuition.	1,257,452	1,294,177	1,294,177	-
Transportation fees.	5,342	5,498	5,498	-
Earnings on investments	12,747	13,119	13,119	-
Classroom materials and fees	1,279	1,316	1,316	-
Other local revenues	26,669	27,448	27,448	-
Intergovernmental - state	5,910,303	6,082,918	6,089,280	6,362
Intergovernmental - federal	94,673	97,438	97,438	-
Total revenues	<u>10,545,054</u>	<u>10,853,030</u>	<u>10,859,392</u>	<u>6,362</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,591,900	6,591,900	6,547,238	44,662
Special.	1,042,716	1,042,716	1,020,431	22,285
Other.	4,935	4,935	2,663	2,272
Support services:				
Pupil.	615,129	615,129	600,930	14,199
Instructional staff	651,725	651,725	627,410	24,315
Board of education	39,259	39,259	37,595	1,664
Administration.	980,653	980,653	953,546	27,107
Fiscal	295,880	295,880	303,136	(7,256)
Operations and maintenance.	1,341,684	1,341,684	1,244,228	97,456
Pupil transportation	896,866	896,866	854,139	42,727
Extracurricular activities.	402,576	402,576	395,786	6,790
Total expenditures	<u>12,863,323</u>	<u>12,863,323</u>	<u>12,587,102</u>	<u>276,221</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(2,318,269)</u>	<u>(2,010,293)</u>	<u>(1,727,710)</u>	<u>282,583</u>
Other financing sources (uses):				
Refund of prior year's expenditures	2,619	2,695	2,695	-
Refund of prior year's receipts.	(900)	(900)	-	900
Transfers in	914,965	941,687	941,687	-
Transfers (out).	(4,000)	(4,000)	(3,740)	260
Advances (out)	(18,320)	(18,320)	(18,320)	-
Sale of capital assets	2,594	2,670	2,670	-
Total other financing sources (uses)	<u>896,958</u>	<u>923,832</u>	<u>924,992</u>	<u>1,160</u>
Net change in fund balance	(1,421,311)	(1,086,461)	(802,718)	283,743
Fund balance at beginning of year	2,740,464	2,740,464	2,740,464	-
Prior year encumbrances appropriated	227,328	227,328	227,328	-
Fund balance at end of year	<u>\$ 1,546,481</u>	<u>\$ 1,881,331</u>	<u>\$ 2,165,074</u>	<u>\$ 283,743</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 33,931
Receivables:	
Intergovernmental.	2
Total assets.	\$ 33,933
Liabilities:	
Accounts payable.	\$ 59
Due to students.	33,874
Total liabilities	\$ 33,933

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District operates under a locally elected five-member Board form of government and provides educational services as mandated by State and/or federal agencies. The Board controls the District's four instructional/support facilities staffed by 55 non-certified and 93 certified full time teaching personnel, including 9 administrators, who provide services to 1,535 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

The following organizations are described due to their relationship to the District:

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

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a data consortium of 35 school districts. SPARCC was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the governments of these schools supports SPARCC based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months' financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in SPARCC because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 38th Street NW, Canton, Ohio 44709-2300.

Portage County School Consortium (the "Consortium")

Portage County School Consortium is an insurance group-purchasing consortium made up of twenty school districts in Columbiana, Portage and Mahoning Counties. All member districts pay an insurance premium directly to the Consortium. The District paid \$1,683,977 in the form of health care premiums to the Consortium for the current fiscal year.

Maplewood Career Center

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Income taxes, payment in lieu of taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported in the statement of activities as an expense with a like amount reported within the "operating grants and contributions" 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. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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 2013. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board during the year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

F. Cash and Investments

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

During fiscal year 2013, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2013.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$13,247, which includes \$1,813 assigned from other District funds.

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

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

G. Inventory

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. It is the policy of the District to not capitalize interest costs incurred as part of construction.

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

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 years
Buildings	30 - 50 years
Furniture fixtures and equipment	5 - 20 years
Vehicles	5 - 20 years

I. Interfund Balances

Payables resulting from workers' compensation liabilities and certain pension liabilities in the nonmajor governmental funds and amounts to cover negative cash balances are recorded as "due to other funds" and a corresponding receivable recorded as "due from other funds" in the general fund. These amounts are eliminated in the governmental activities column on the statement of net position.

On fund financial statements, receivables and payables resulting from short-term interfund loans between governmental funds are classified as "interfund receivable/payable". These amounts are eliminated in the governmental activities column on the statement of net position.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination (severance) payments. The liability is an estimate based on the District's past experience of making termination (severance) payments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

K. Unamortized Bond Premium and Discount/Accounting Gain or Loss

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refunds resulting in the defeasance of the debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.A.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for special trusts.

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

N. Prepayments

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

O. Estimates

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

P. Stabilization Arrangement

The Board of Education has \$50,662 of unassigned fund balance in the general fund set aside to be used for budget stabilization. The Board has set aside these funds to cover emergency situations or when revenue shortages or budgetary imbalances arise. The budget stabilization arrangement may be removed by action of the Board of Education at any time.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the District:

	Governmental Activities
Net assets as previously reported	\$ 4,074,594
Removal of unamortized bond issuance costs	(75,314)
Net position at July 1, 2012	\$ 3,999,280

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2013 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Food service	\$ 44,044
Title VI-B	2,734

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (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 banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all District deposits was \$1,195,413, which is exclusive of STAR Ohio reported as an investment below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$692,730 of the District's bank balance of \$1,419,188 was exposed to custodial risk as discussed below, while \$726,458 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2013, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 1,519,048	\$ 1,519,048
	<u>\$ 1,519,048</u>	<u>\$ 1,519,048</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2013:

<u>Investment type</u>	<u>Fair value</u>	<u>% of total</u>
STAR Ohio	\$ 1,519,048	100.00%
	<u>\$ 1,519,048</u>	<u>100.00%</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>		
Carrying amount of deposits	\$ 1,195,413	
Investments	<u>1,519,048</u>	
Total	<u>\$ 2,714,461</u>	
<u>Cash and investments per statement of net position</u>		
Governmental activities	\$ 2,680,530	
Agency fund	<u>33,931</u>	
Total	<u>\$ 2,714,461</u>	

NOTE 5 - INTERFUND TRANSACTIONS

- A. Due to/from other funds at June 30, 2013 as reported on the fund financial statements, consist of the following:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 28,525

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The purpose of the due to/from other funds balance at June 30, 2013 is to show the liability of certain nonmajor governmental funds to the general fund for their portion of the workers' compensation and pension liabilities and to cover negative cash balances.

Due to/from other funds between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2013 are reported on the statement of net position.

- B.** Interfund balances at June 30, 2013 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 18,320</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- C.** Interfund transfers for the year ended June 30, 2013, consisted of the following, as reported on the fund financial statements:

Transfers from the general fund to:	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 3,740</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements. No interfund transfers are reported on the statement of activities.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$315,112 in the general fund and \$33,328 in the bond retirement fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$349,580 in the general fund and \$37,043 in the bond retirement fund, a nonmajor governmental fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2013 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 163,003,550	97.19	\$ 160,406,680	96.88
Public utility personal	<u>4,723,840</u>	<u>2.81</u>	<u>5,164,310</u>	<u>3.12</u>
Total	<u>\$ 167,727,390</u>	<u>100.00</u>	<u>\$ 165,570,990</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 69.53		\$ 69.63	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2013 consisted of taxes, accounts, intergovernmental grants and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:	
Taxes	\$ 4,772,838
Accounts	2,046
Intergovernmental	157,999
Accrued interest	<u>128</u>
Total	<u>\$ 4,933,011</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance <u>06/30/12</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/13</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 137,302	\$ -	\$ -	\$ 137,302
Total capital assets, not being depreciated	<u>137,302</u>	<u>-</u>	<u>-</u>	<u>137,302</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	286,374	-	-	286,374
Buildings and improvements	10,495,640	-	-	10,495,640
Furniture, fixtures and equipment	1,098,785	20,229	(32,133)	1,086,881
Vehicles	<u>1,001,292</u>	<u>43,750</u>	<u>(109,549)</u>	<u>935,493</u>
Total capital assets, being depreciated	<u>12,882,091</u>	<u>63,979</u>	<u>(141,682)</u>	<u>12,804,388</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(285,614)	(760)	-	(286,374)
Buildings and improvements	(4,113,924)	(190,202)	-	(4,304,126)
Furniture, fixtures and equipment	(757,514)	(78,003)	30,969	(804,548)
Vehicles	<u>(661,544)</u>	<u>(69,828)</u>	<u>109,549</u>	<u>(621,823)</u>
Total accumulated depreciation	<u>(5,818,596)</u>	<u>(338,793)</u>	<u>140,518</u>	<u>(6,016,871)</u>
Total capital assets being depreciated, net	<u>7,063,495</u>	<u>(274,814)</u>	<u>(1,164)</u>	<u>6,787,517</u>
Governmental activities capital assets, net	<u>\$ 7,200,797</u>	<u>\$ (274,814)</u>	<u>\$ (1,164)</u>	<u>\$ 6,924,819</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 184,912
Special	5,499

Support services:

Pupil	622
Instructional staff	6,992
Administration	39,824
Fiscal	775
Operations and maintenance	24,239
Pupil transportation	64,780
Extracurricular	4,232
Food service operations	<u>6,918</u>
Total depreciation expense	<u>\$ 338,793</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for copier equipment. These lease agreements met the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of office equipment have been capitalized in the amount of \$175,243. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2013 was \$64,255, leaving a current book value of \$110,988. Principal payments in fiscal year 2013 totaled \$31,803 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2013:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 42,450
2015	42,450
2016	42,450
2017	<u>3,537</u>
Total	130,887
Less: amount representing interest	<u>(15,233)</u>
Present value of minimum lease payments	<u>\$ 115,654</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u>		<u>Balance</u>	<u>Amounts</u>
	<u>06/30/12</u>	<u>Additions</u>	<u>06/30/13</u>	<u>Due in</u>
				<u>One Year</u>
General obligation bonds	\$ 4,700,000	\$ -	\$ 4,415,000	\$ 295,000
Capital lease obligation	147,457	-	115,654	34,442
Compensated absences	<u>824,006</u>	<u>115,904</u>	<u>822,409</u>	<u>88,944</u>
Total	<u>\$ 5,671,463</u>	<u>\$ 115,904</u>	5,353,063	<u>\$ 418,386</u>
Add: Unamortized premium on refunding			<u>171,569</u>	
Total on statement of net position			<u>\$ 5,524,632</u>	

Compensated absences: Compensated absences will be paid from the fund from which the employees' salaries are paid which, for the District, is primarily the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

- B.** On March 1, 2007, the District issued general obligation bonds (series 2007 refunding bonds) to advance refund the callable portion of the series 1999 current interest general obligation bonds (callable principal \$5,105,000). The issuance proceeds of \$5,258,550 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. At June 30, 2013, \$4,340,000 of this debt was outstanding.

The refunding issue is comprised of current interest bonds, par value \$4,865,000 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The interest rate on the refunding issue is 4%.

The reacquisition price exceeded the net carrying amount of the old debt by \$153,550. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The following is a summary of the future debt service requirements to maturity for the 2007 series refunding bonds:

Fiscal Year Ending June 30,	Current Interest Bonds		
	Principal	Interest	Total
2014	\$ 295,000	\$ 170,700	\$ 465,700
2015	310,000	158,600	468,600
2016	315,000	146,100	461,100
2017	330,000	133,200	463,200
2018	345,000	119,700	464,700
2019 - 2023	1,935,000	376,100	2,311,100
2024 - 2025	885,000	35,700	920,700
Total	<u>\$ 4,415,000</u>	<u>\$ 1,140,100</u>	<u>\$ 5,555,100</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2013, are a voted debt margin of \$10,739,780 (including available funds of \$253,391) and an unvoted debt margin of \$165,571.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Group Health and Dental Insurance

Health, life, vision and dental and other group insurance is offered to employees as a fringe benefit. Employer and employee contributions to premium are determined by negotiated agreements with employee labor unions. Currently, all coverage is 90% Board paid, while the remaining 10% is paid by the employee.

C. Early Retirement Incentive

The District offers an early retirement incentive plan for certified and classified employees. This plan will be paid in addition to cash payments for unused sick leave. For an employee to be eligible for the plan, the employee must be eligible for retirement by July 1 of each year. The employee must have ten or more full years of continuous full-time service with the District since the most recent date of employment or reemployment and must be in an active state of employment at the time of retirement.

A certified or classified employee who elects not to retire by July 1 of the year in which the employee achieves thirty years of service credit will thereafter be ineligible for the retirement incentive bonus. A certified employee who achieves twenty-five years of service credit at age fifty-five or achieves ten years of service credit at age 60 and elects not to retire will thereafter be ineligible for the retirement incentive bonus. A classified employee who achieves twenty-five years of service credit at age fifty-five or achieves ten years of service credit at age 60 may apply for the retirement incentive bonus at the employees' option.

For certified employees, the amount of the retirement incentive is a one-time payment of \$15,000 to be made by January 31 of the year following retirement. Certified employees who become first-time eligible must notify the Board of their intent to retire by April 1 prior to the date of retirement in order to qualify for the retirement incentive. No certified employees took the retirement incentive during fiscal year 2013.

For classified employees, the amount of the retirement incentive bonus is a one-time payment equal to one third of the employee's previous year's pay to be made by January 31 of the year following retirement. One classified employee took the retirement incentive bonus during fiscal year 2013.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District participates in the Portage County School Consortium (the "Consortium"), which is a cooperative entity among 21 educational-service providers formed in 1981 to facilitate effective risk management and to share the cost of providing various insurance coverages and employee benefits. The Health and Welfare Trust is organized under the provisions of Section 501(c) (9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. The insurance agreement with the Consortium also provides that the Consortium will reinsure through commercial companies for claims over \$200,000 per employee. Although the District does not participate in the day-to-day management of the Consortium, one of its administrators serves as a trustee of the Consortium's governing board, as provided in the Consortium's enabling authority. Although the District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the Consortium become depleted, it is the opinion of management that the assets of the Consortium are sufficient to meet its claims.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2013, the District contracted with the following carriers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Ohio Casualty Insurance	General Liability	\$0
Ohio Casualty Insurance	Automobile	\$250/\$500
Ohio Casualty Insurance	Property Insurance	\$2,500

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

B. Workers' Compensation Group Rating Plan

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

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to districts that can meet the Plan's selection criteria. The firm of Comp Management Inc. provides administrative, cost control and actuarial services to the Plan.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$224,834, \$223,225 and \$204,447, respectively; 72.67 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 13 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$832,604, \$796,190 and \$779,171, respectively; 83.54 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$33,940 made by the District and \$24,243 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 (latest information available) was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$28,629, \$43,400 and \$59,137, respectively; 72.67 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$12,701, \$13,183 and \$13,157, respectively; 72.67 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$64,046, \$61,245 and \$59,936, respectively; 83.54 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (802,718)
Net adjustment for revenue accruals	(10,028)
Net adjustment for expenditure accruals	14,725
Net adjustment for other sources/uses	15,625
Funds budgeted elsewhere **	(33,596)
Adjustment for encumbrances	111,293
GAAP basis	\$ (704,699)

As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate funds are considered part of the general fund on a GAAP basis. This includes the emergency levy fund, uniform school supplies fund, public school support fund, District agency fund, and underground storage tank fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2012	\$ -
Current year set-aside requirement	260,051
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(496,240)
Excess qualified expenditures from prior years	-
Current year offsets	-
Waiver granted by ODE	-
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (236,189)</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End</u>
General fund	\$ 69,303
Other governmental	<u>9,110</u>
Total	<u>\$ 78,413</u>

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<i>Nutrition Cluster:</i>				
Non Cash Assistance (Food Distribution) National School Lunch Program		10.555	\$36,145	\$32,081
National School Breakfast Program	049205-3L70-2013	10.553	56,416	56,416
National School Lunch Program	049205-3L60-2013	10.555	<u>236,201</u>	<u>236,201</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>328,762</u>	<u>324,698</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title I, Part A Cluster</i>				
Title I Grants to Local Educational Agencies	049205-3M00-2012	84.010	29,386	30,622
	049205-3M00-2013	84.010	<u>175,787</u>	<u>177,045</u>
<i>Total Title I Grants to Local Educational Agencies</i>			205,173	207,667
<i>Special Education Cluster (IDEA)</i>				
Special Education Grants to States	049250-3M20-2012	84.027	46,955	46,518
	049250-3M20-2013	84.027	<u>230,498</u>	<u>229,640</u>
<i>Total Special Education Grants to States</i>			277,453	276,158
Improving Teacher Quality State Grants Title II, Part A	049205-3Y60-2013	84.367	62,222	62,222
Education Jobs Fund	049205-3ETO-2012	84.410	<u>47,327</u>	<u>47,017</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>592,175</u>	<u>593,064</u>
TOTALS			<u>\$920,937</u>	<u>\$917,762</u>

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

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the James A. Garfield Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of James A. Garfield Local School District, Portage County, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 11, 2013, wherein we noted the District adopted the provisions of Governmental Accounting Standard No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and No. 65, "Items Previously Reported as Assets and Liabilities."

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider a significant deficiency in internal control. We consider finding 2013-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2013-001.

Entity's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

October 11, 2013



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the James A. Garfield Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings and questioned costs identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the James A. Garfield Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affects each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings and questioned costs as item 2013-002. This finding did not require us to modify our compliance opinion on each major federal program.

The District's response to our noncompliance finding is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings and questioned costs as item 2013-002.

The District's response to the internal control over compliance finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

October 11, 2013

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies (CFDA #84.010) Education Jobs Fund (CFDA #84.410)
(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**

1. Ohio Rev. Code Section 3313.24

<i>Finding Number</i>	2013-001
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NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Finding Number 2013-002 describes unallowable costs being paid from the Nutrition Cluster, and appropriate adjustments that were posted. We believe this finding also represents material noncompliance and a significant deficiency under auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Official's Response: The 10% charged to the cafeteria fund was a portion of the existing salary and benefits allocated to reflect absorption of cafeteria management by the Treasurer's office.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Allowable Costs / Cost Principles

Finding Number	2013-002
CFDA Title and Number	Nutrition Cluster (CFDA #10.553 & 10.555)
Federal Award Number / Year	2013
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

QUESTIONED COST, NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

2 C.F.R., Part 225, Appendix A(C)(1)(c) provides, in part, that to be allowable under Federal awards, costs must be authorized or not prohibited under State or local laws or regulations. In addition, **Ohio Rev. Code Section 3313.24** provides the Board of Education shall fix the compensation of its treasurer which shall be paid from only the general fund of the district.

Our test of payroll expenditures indicated the District charged 10% of the Treasurer's salary and benefits in the amount of \$12,308 to the Food Service Fund, which is prohibited under ORC 3313.24(A).

The District has agreed the payment of the Treasurer's salary and benefits from a fund other than the general fund is a violation of State law. Adjustments in the amount of \$12,308 have been posted to the accounting records and financial statements to properly charge the Treasurer's salary and benefits to the general fund.

**Finding Number 2013 – 002
(Continued)**

In addition, **2 C.F.R. Part 225, Appendix B paragraph 8(h)(3)-(4)** provides where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of the appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

2 C.F.R Part 225, Appendix B, paragraph 8(h)(5) further provides that personnel activity reports or equivalent documentation must:

- Reflect an after the fact distribution of the actual activity of each employee;
- Account for the total activity for which each employee is compensated;
- Be prepared at least monthly and must coincide with one or more pay periods; and,
- Be signed by the employee.

Our testing of payroll expenditures indicated the District charged 10% of the Assistant Treasurer's salary and benefits in the amount of \$6,241 to the Food Service Fund, which is not specifically prohibited under State law, however, the District failed to maintain any periodic certifications, personnel activity reports, or other equivalent documentation supporting these charges.

We are therefore questioning \$18,549 in salaries and fringe benefits for the employees mentioned above as allowable costs of the Nutrition Cluster.

We recommend the District modify the Treasurer's salary and benefits allocation to only include the General Fund. Furthermore, we recommend the District maintain time and effort documentation supporting the Assistant Treasurer's salary and benefits charged to the Nutrition Cluster. The District should maintain personal activity reports, or equivalent documentation required for all employees paid from any federal programs, in accordance with the requirements of 2 C.F.R. Part 225, Appendix B 8(h). This will help ensure the District is in compliance with all Federal time and effort documentation requirements. Failure to maintain adequate time and effort documentation could compromise the District's eligibility to participate in future Federal grants.

Official's Response: The 10% charged to the cafeteria fund was a portion of the existing salary and benefits allocated to reflect absorption of cafeteria management by the Treasurer's office.

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

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
June 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-002	<p>100% of the Treasurer's salary and benefits are being charged to the General Fund effective July 1, 2013.</p> <p>100% of the Assistant Treasurer's salary and benefits are being charged to the general fund effective July 1, 2013; time and effort logs are being completed by the Assistant Treasurer and the charge will be re-evaluated based on these logs.</p> <p>Adjustment of \$12,308 to the July 1, 2013 cash balance for general fund and cafeteria via fund to fund transfer</p> <p>Reduce general fund \$12,308 and increase cafeteria \$12,308</p>	<p>9/30/2013</p> <p>9/30/2013</p> <p>11/1/2013</p>	Tracy L. Knauer, Treasurer



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether James A. Garfield Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on February 14, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 11, 2013

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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
NOVEMBER 19, 2013**