



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the James A. Garfield Local School District, Portage County, (the District) as of and for the year ended June 30, 2003, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the James A. Garfield Local School District, Portage County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Federal Awards Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

November 18, 2003

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**James A. Garfield Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits</u>				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,070,645	\$136,477	\$185,073	\$1,671
Receivables:				
Taxes	3,130,918	0	446,645	0
Accounts	277	469	0	0
Intergovernmental	454	86,882	0	0
Interfund Receivable	1,888	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	27,104	0	0	0
Prepaid Items	9,264	0	0	0
Restricted Assets:				
Cash and Cash Equivalents with Fiscal Agents	50,662	0	0	0
Fixed Assets (Net, Where Applicable, of Accumulated Depreciation)	0	0	0	0
<u>Other Debits</u>				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	<u>\$4,291,212</u>	<u>\$223,828</u>	<u>\$631,718</u>	<u>\$1,671</u>
<u>Liabilities, Fund Equity and Other Credits</u>				
<u>Liabilities</u>				
Accounts Payable	\$43,109	\$8,004	\$0	\$0
Accrued Wages and Benefits	1,002,822	48,223	0	0
Compensated Absences Payable	69,862	0	0	0
Interfund Payable	0	1,888	0	0
Intergovernmental Payable	143,568	7,934	0	0
Deferred Revenue	3,010,739	45,510	429,413	0
Due to Students	0	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	<u>4,270,100</u>	<u>111,559</u>	<u>429,413</u>	<u>0</u>
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	317,866	10,487	0	325
Reserved for Inventory	27,104	0	0	0
Reserved for Prepaid Items	9,264	0	0	0
Reserved for Debt Service Principal	0	0	185,073	0
Reserved for Property Taxes	120,179	0	17,232	0
Reserved for Budget Stabilization	50,662	0	0	0
Unreserved:				
Undesignated	(503,963)	101,782	0	1,346
Total Fund Equity and Other Credits	<u>21,112</u>	<u>112,269</u>	<u>202,305</u>	<u>1,671</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$4,291,212</u>	<u>\$223,828</u>	<u>\$631,718</u>	<u>\$1,671</u>

See accompanying notes to the general purpose financial statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$5,591	\$20,038	\$0	\$0	\$1,419,495
0	0	0	0	3,577,563
4,372	100	0	0	5,218
17,680	0	0	0	105,016
0	0	0	0	1,888
18,225	0	0	0	18,225
1,512	0	0	0	28,616
11	0	0	0	9,275
0	0	0	0	50,662
50,806	0	13,355,918	0	13,406,724
0	0	0	202,305	202,305
0	0	0	6,937,724	6,937,724
<u>\$98,197</u>	<u>\$20,138</u>	<u>\$13,355,918</u>	<u>\$7,140,029</u>	<u>\$25,762,711</u>
\$13	\$565	\$0	\$0	\$51,691
32,406	0	0	0	1,083,451
19,311	0	0	652,100	741,273
0	0	0	0	1,888
14,792	72	0	58,258	224,624
11,995	0	0	0	3,497,657
0	12,048	0	0	12,048
0	0	0	84,679	84,679
0	0	0	6,344,992	6,344,992
<u>78,517</u>	<u>12,685</u>	<u>0</u>	<u>7,140,029</u>	<u>12,042,303</u>
0	0	13,355,918	0	13,355,918
43,465	0	0	0	43,465
(23,785)	0	0	0	(23,785)
0	0	0	0	328,678
0	0	0	0	27,104
0	0	0	0	9,264
0	0	0	0	185,073
0	0	0	0	137,411
0	0	0	0	50,662
0	7,453	0	0	(393,382)
<u>19,680</u>	<u>7,453</u>	<u>13,355,918</u>	<u>0</u>	<u>13,720,408</u>
<u>\$98,197</u>	<u>\$20,138</u>	<u>\$13,355,918</u>	<u>\$7,140,029</u>	<u>\$25,762,711</u>

**James A. Garfield Local School District
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Revenues</u>				
Taxes	\$3,214,894	\$0	\$439,483	\$0
Intergovernmental	6,049,117	455,339	49,887	0
Interest	32,889	0	0	57
Tuition and Fees	340,532	0	0	0
Extracurricular Activities	0	104,403	0	0
Gifts and Donations	5,000	0	0	0
Miscellaneous	2,976	58,423	0	0
Total Revenues	9,645,408	618,165	489,370	57
<u>Expenditures</u>				
Current:				
Instruction:				
Regular	5,294,073	79,292	0	0
Special	395,606	220,267	0	0
Adult/Continuing	0	4,800	0	0
Other	104,913	7,793	0	0
Support Services:				
Pupils	447,605	41,345	0	0
Instructional Staff	395,510	82,308	0	0
Board of Education	37,288	0	0	0
Administration	1,058,171	74,832	0	0
Fiscal	255,113	0	8,634	0
Operation and Maintenance of Plant	1,362,644	0	0	0
Pupil Transportation	868,231	0	0	0
Central	0	47,065	0	0
Operation of Non-Instructional Services	0	0	0	20,848
Extracurricular Activities	253,885	82,340	0	0
Capital Outlay	98,820	0	0	4,723
Debt Service:				
Principal Retirement	0	0	190,000	0
Interest and Fiscal Charges	0	0	293,523	0
Total Expenditures	10,571,859	640,042	492,157	25,571
(Deficiency) of Revenues (Under) Expenditures	(926,451)	(21,877)	(2,787)	(25,514)
<u>Other Financing Sources (Uses)</u>				
Proceeds from Sale of Fixed Assets	176	0	0	0
Operating Transfers In	0	1,922	0	0
Inception of Capital Lease	98,820	0	0	0
Operating Transfers Out	(79,172)	0	0	0
Total Other Financing Sources (Uses)	19,824	1,922	0	0
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(906,627)	(19,955)	(2,787)	(25,514)
Fund Balances at Beginning of Year	919,629	132,100	205,092	27,185
Residual Equity Transfers In	0	124	0	0
Increase in Reserve for Inventory	8,110	0	0	0
Fund Balances at End of Year	\$21,112	\$112,269	\$202,305	\$1,671

See accompanying notes to the general purpose financial statements.

Fiduciary Fund Type	Totals (Memorandum Only)
\$0	\$3,654,377
0	6,554,343
143	33,089
0	340,532
0	104,403
7,527	12,527
<u>0</u>	<u>61,399</u>
<u>7,670</u>	<u>10,760,670</u>
0	5,373,365
0	615,873
0	4,800
0	112,706
0	488,950
0	477,818
0	37,288
0	1,133,003
0	263,747
0	1,362,644
0	868,231
0	47,065
10,578	31,426
50	336,275
0	103,543
0	190,000
<u>0</u>	<u>293,523</u>
<u>10,628</u>	<u>11,740,257</u>
<u>(2,958)</u>	<u>(979,587)</u>
0	176
0	1,922
0	98,820
<u>0</u>	<u>(79,172)</u>
<u>0</u>	<u>21,746</u>
(2,958)	(957,841)
10,411	1,294,417
0	124
<u>0</u>	<u>8,110</u>
<u>\$7,453</u>	<u>\$344,810</u>

James A. Garfield Local School District
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Intergovernmental	\$5,972,677	\$6,053,997	\$81,320
Interest	31,000	32,889	1,889
Tuition and Fees	337,412	347,515	10,103
Extracurricular Activities	0	0	0
Gifts and Donations	5,000	5,000	0
Property and Other Local Taxes	3,128,231	3,155,860	27,629
Miscellaneous	2,000	2,829	829
Total Revenues	9,476,320	9,598,090	121,770
<u>Expenditures</u>			
Current:			
Instruction:			
Regular	5,292,755	5,232,908	59,847
Special	383,752	379,420	4,332
Adult/Continuing	0	0	0
Other	287,112	233,044	54,068
Support services:			
Pupils	447,418	447,368	50
Instructional Staff	401,723	390,316	11,407
Board of Education	45,187	39,523	5,664
Administration	1,124,579	1,076,437	48,142
Fiscal	263,540	254,532	9,008
Operation and Maintenance of Plant	1,466,480	1,442,175	24,305
Pupil Transportation	960,229	947,289	12,940
Central	0	0	0
Non-Instructional Services	0	0	0
Extracurricular Activities	249,840	249,440	400
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	10,922,615	10,692,452	230,163
(Deficiency) of Revenues (Under) Expenditures	(1,446,295)	(1,094,362)	351,933
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	0	25,872	25,872
Proceeds from Sale of Fixed Assets	500	176	(324)
Refund of Prior Year Expenditures	0	74	74
Advances In	100,000	134,570	34,570
Operating Transfers Out	(106,098)	(105,044)	1,054
Advances Out	(133,902)	(133,902)	0
Refund of Prior Year Receipts	0	(74)	(74)
Total Other Financing Sources (Uses)	(139,500)	(78,328)	61,172
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(1,585,795)	(1,172,690)	413,105
Fund Balances at Beginning of Year	1,245,241	1,245,241	0
Prior Year Encumbrances Appropriated	687,781	687,781	0
Fund Balances at End of Year	\$347,227	\$760,332	\$413,105

See accompanying notes to the general purpose financial statements.

Governmental Fund Types					
Special Revenue			Debt Service		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$533,694	\$453,810	(\$79,884)	\$49,872	\$50,162	\$290
0	0	0	0	0	0
0	0	0	0	0	0
113,601	104,863	(8,738)	0	0	0
0	0	0	0	0	0
0	0	0	437,827	432,808	(5,019)
56,345	57,228	883	0	0	0
703,640	615,901	(87,739)	487,699	482,970	(4,729)
141,458	86,391	55,067	0	0	0
258,100	222,109	35,991	0	0	0
6,000	6,000	0	0	0	0
14,251	9,368	4,883	0	0	0
47,871	46,728	1,143	0	0	0
100,789	85,303	15,486	0	0	0
0	0	0	0	0	0
100,689	77,367	23,322	0	0	0
0	0	0	8,700	8,634	66
0	0	0	0	0	0
0	0	0	0	0	0
50,056	47,810	2,246	0	0	0
4,479	0	4,479	0	0	0
102,497	95,056	7,441	0	0	0
0	0	0	0	0	0
0	0	0	190,000	190,000	0
0	0	0	293,523	293,523	0
826,190	676,132	150,058	492,223	492,157	66
(122,550)	(60,231)	62,319	(4,524)	(9,187)	(4,663)
2,124	2,047	(77)	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
53,375	54,114	739	0	0	0
0	0	0	0	0	0
(55,931)	(54,782)	1,149	0	0	0
(9,121)	(9,121)	0	0	0	0
(9,553)	(7,742)	1,811	0	0	0
(132,103)	(67,973)	64,130	(4,524)	(9,187)	(4,663)
137,033	137,033	0	194,260	194,260	0
46,780	46,780	0	0	0	0
\$51,710	\$115,840	\$64,130	\$189,736	\$185,073	(\$4,663)

(continued)

James A. Garfield Local School District
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis) (Continued)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	Capital Projects		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Intergovernmental	\$0	\$0	\$0
Interest	57	57	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Gifts and Donations	0	0	0
Property and Other Local Taxes	0	0	0
Miscellaneous	0	0	0
Total Revenues	57	57	0
<u>Expenditures</u>			
Current:			
Instruction:			
Regular	0	0	0
Special	0	0	0
Adult/Continuing	0	0	0
Other	0	0	0
Support services:			
Pupils	0	0	0
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	0	0	0
Fiscal	0	0	0
Operation and Maintenance of Plant	0	0	0
Pupil Transportation	0	0	0
Central	0	0	0
Non-Instructional Services	48,260	46,914	1,346
Extracurricular Activities	0	0	0
Capital Outlay	16,513	16,513	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	64,773	63,427	1,346
(Deficiency) of Revenues (Under) Expenditures	(64,716)	(63,370)	1,346
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	0	0	0
Proceeds from Sale of Fixed Assets	0	0	0
Refund of Prior Year Expenditures	0	0	0
Advances In	0	0	0
Operating Transfers Out	0	0	0
Advances Out	0	0	0
Refund of Prior Year Receipts	0	0	0
Total Other Financing Sources (Uses)	0	0	0
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing (Uses)	(64,716)	(63,370)	1,346
Fund Balances at Beginning of Year	19,743	19,743	0
Prior Year Encumbrances Appropriated	44,973	44,973	0
Fund Balances at End of Year	\$0	\$1,346	\$1,346

See accompanying notes to the general purpose financial statements.

Fiduciary Fund Type			Totals (Memorandum Only)		
Expendable Trust Fund					
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$6,556,243	\$6,557,969	\$1,726
160	143	(17)	31,217	33,089	1,872
0	0	0	337,412	347,515	10,103
0	0	0	113,601	104,863	(8,738)
7,527	7,527	0	12,527	12,527	0
0	0	0	3,566,058	3,588,668	22,610
0	0	0	58,345	60,057	1,712
7,687	7,670	(17)	10,675,403	10,704,688	29,285
86	0	86	5,434,299	5,319,299	115,000
0	0	0	641,852	601,529	40,323
0	0	0	6,000	6,000	0
0	0	0	301,363	242,412	58,951
0	0	0	495,289	494,096	1,193
1,761	0	1,761	504,273	475,619	28,654
0	0	0	45,187	39,523	5,664
0	0	0	1,225,268	1,153,804	71,464
0	0	0	272,240	263,166	9,074
0	0	0	1,466,480	1,442,175	24,305
0	0	0	960,229	947,289	12,940
0	0	0	50,056	47,810	2,246
11,500	10,579	921	64,239	57,493	6,746
190	50	140	352,527	344,546	7,981
0	0	0	16,513	16,513	0
0	0	0	190,000	190,000	0
0	0	0	293,523	293,523	0
13,537	10,629	2,908	12,319,338	11,934,797	384,541
(5,850)	(2,959)	2,891	(1,643,935)	(1,230,109)	413,826
0	0	0	2,124	27,919	25,795
0	0	0	500	176	(324)
0	0	0	0	74	74
0	0	0	153,375	188,684	35,309
0	0	0	(106,098)	(105,044)	1,054
0	0	0	(189,833)	(188,684)	1,149
0	0	0	(9,121)	(9,195)	(74)
0	0	0	(149,053)	(86,070)	62,983
(5,850)	(2,959)	2,891	(1,792,988)	(1,316,179)	476,809
10,412	10,412	0	1,606,689	1,606,689	0
0	0	0	779,534	779,534	0
\$4,562	\$7,453	\$2,891	\$593,235	\$1,070,044	\$476,809

**James A. Garfield Local School District
 Combined Statement of Revenues,
 Expenses and Changes in Fund Equity
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2003**

	Proprietary Fund Type
	Enterprise
<u>Operating Revenues</u>	
Sales	\$314,011
Charges for Services	3,329
Other Revenue	4,840
	322,180
<u>Operating Expenses</u>	
Salaries	178,133
Fringe Benefits	91,115
Purchased Services	20,601
Materials and Supplies	29,852
Cost of Sales	247,276
Depreciation	8,200
Repairs and Maintenance	83
Other Operating Expenses	1,190
	576,450
Operating (Loss)	(254,270)
<u>Non-Operating Revenues</u>	
Federal Donated Commodities	51,689
Interest	4
Federal and State Subsidies	125,685
	177,378
(Loss) Before Operating Transfers	(76,892)
Operating Transfers In	77,250
Net Income	358
Retained (Deficit) at Beginning of Year	(24,143)
Retained (Deficit) at End of Year	(\$23,785)
Contributed Capital at Beginning of Year	43,465
Contributed Capital at End of Year	43,465
Total Fund Equity at End of Year	\$19,680

See accompanying notes to the general purpose financial statements.

**James A. Garfield Local School District
 Combined Statement of Cash Flows
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2003**

	Enterprise
<u>Cash Flows from Operating Activities</u>	
Cash Received from Customers	\$315,068
Cash Payments to Suppliers for Goods and Services	(249,514)
Cash Payments to Employees for Services	(162,447)
Cash Payments for Employee Benefits	(89,157)
Other Operating Revenues	4,840
Other Operating Expenses	(1,168)
Net Cash (Used for) Operating Activities	(182,378)
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating Grants Received	108,005
Operating Transfers In	77,250
Short-Term Loans From Other Funds	79,788
Repayment of Short-Term Loans From Other Funds	(79,788)
Net Cash Provided by Noncapital Financing Activities	185,255
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of Capital Assets	(3,222)
Net Cash (Used for) Capital and Related Financing Activities	(3,222)
<u>Cash Flows from Investing Activities</u>	
Interest on Investments	4
Net Cash Provided by Investing Activities	4
Net (Decrease) in Cash and Cash Equivalents	(341)
Cash and Cash Equivalents at Beginning of Year	5,932
Cash and Cash Equivalents at End of Year	\$5,591
Reconciliation of Operating (Loss) to Net <u>Cash (Used for) Operating Activities</u>	
Operating (Loss)	(\$254,270)
Adjustments to Reconcile Operating (Loss) to <u>Net Cash (Used for) Operating Activities</u>	
Depreciation	8,200
Donated Commodities Used During Year	51,689
Changes in Assets and Liabilities:	
(Increase)/Decrease in Accounts Receivable	(4,170)
(Increase)/Decrease in Due from Other Governments	1,299
(Increase)/Decrease in Prepaid Items	22
(Increase)/Decrease in Inventory Held for Resale	(2,507)
(Increase)/Decrease in Materials and Supplies Inventory	76
Increase/(Decrease) in Accounts Payable	(363)
Increase/(Decrease) in Accrued Wages	8,539
Increase/(Decrease) in Compensated Absences Payable	2,163
Increase/(Decrease) in Intergovernmental Payable	6,944
Total Adjustments	71,892
Net Cash (Used for) Operating Activities	(\$182,378)

See accompanying notes to the general purpose financial statements.

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JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - DESCRIPTION OF THE ENTITY

The James A. Garfield Local School District (the District) is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio to provide educational services to the students and other community members of the District. Under such laws there is no authority for a district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms by the citizens of the District.

The District serves an area of approximately 56 square miles in Portage County including the Village of Garrettsville and portions of the surrounding townships of Freedom, Nelson, Hiram and Charlestown.

The District is the 350th largest in the State of Ohio (among 613 Districts) in terms of enrollment (Fall 2002 enrollment count). It currently operates one elementary school, one intermediate school, one middle school and one comprehensive high school. The District is staffed by 69 non-certified and 111 certified personnel to provide services to approximately 1,607 students and other community members.

The District provides more than instruction to its students. These additional services include student guidance, extracurricular activities, educational media, and care and upkeep of grounds and buildings. The operation of each of these activities is directly controlled by the Board of Education through the budgetary process. These District operations will be included as a part of the reporting entity.

The District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions and component units for which the District is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the District's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District.

On this basis, the combined general purpose financial statements include all the funds and account groups of the District over which the Board of Education exercises operating controls. The management has determined that the District has no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

BASIS OF PRESENTATION - FUND ACCOUNTING

The District uses funds and account groups to report its financial position and results of operation. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For general purpose financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories: governmental, proprietary, and fiduciary. Each category is then divided into various fund types. The following are the fund types and account groups utilized by the District.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use, and balance of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds, except those accounted for in proprietary and fiduciary funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the District's governmental fund types:

General Fund

The general fund is the operating fund of the District and is used to account for all financial resources except those accounted for in another fund as required by law or contract. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be expended for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities that are similar to those often found in the private sector. The District applies all applicable pronouncements from the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 when accounting and reporting its proprietary operations. The following is the District's proprietary fund type:

Enterprise Fund

The enterprise fund is used to account for operations that (a) are financed and operated in a manner similar to private business enterprises where the intent of the District is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the District has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. The following are the District's fiduciary funds:

Expendable Trust Fund

This fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The expendable trust fund accounts for assets where both the principal and interest may be spent.

Agency Funds

These funds are purely custodial in nature and thus do not involve measurement of results of operations.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the District, other than those accounted for in the proprietary fund.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the District except those accounted for in the proprietary fund.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used for reporting purposes by all governmental fund types, expendable trust funds and agency funds. Under this basis of accounting, the District recognizes revenues in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current fiscal period or soon enough thereafter to be used to pay liabilities of the current fiscal period, which the District considers to be sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: amounts available as an advance on property taxes, investment earnings, tuition, grants and entitlements, and student fees.

The District reports deferred revenue on its Combined Balance Sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized. Property taxes measurable as of June 30, 2003, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2004 operations, have been recorded as deferred revenue. In the proprietary fund types, unused donated commodities are reported as deferred revenue.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred except for unmatured principal and interest on general long-term debt which is reported only when due, and the costs of accumulated unpaid vacation and sick leave which are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they are incurred, if measurable. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense with a like amount reported as donated commodities non-operating revenue.

BUDGETARY PROCESS

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 Appropriation Resolution are subject to amendment throughout the fiscal 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 legal level of budgetary control is at the fund level for all funds. Budgetary modifications may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. No later than January 20, the Board-adopted budget is filed with the Portage County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the Appropriation Resolution. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding fiscal year. The Certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflects the amounts set forth in the final amended Certificate issued for fiscal 2003.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Appropriations

By October 1, the annual Appropriation Resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the Appropriation Resolution, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. Appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

Formal budgetary integration is employed as a management control device during the fiscal year for all funds consistent with statutory provisions. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the fiscal year by supplemental appropriations which either reallocate or increase the original appropriated amounts. During the fiscal year, several supplemental appropriation measures were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balances for subsequent fiscal year expenditures for governmental funds and reported in the notes to the general purpose financial statements for proprietary funds.

Lapsing of Appropriations

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

CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the Combined Balance Sheet. During fiscal year 2003, investments were limited to STAR Ohio and overnight repurchase agreements.

Nonparticipating investment contracts such as overnight repurchase agreements are reported at cost.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest credited to the general fund amounted to \$32,889 during fiscal year 2003, which includes \$21,078 assigned from other District funds.

For purposes of the Combined Statement of Cash Flows and for presentation on the Combined Balance Sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents.

RESTRICTED ASSETS

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve may be used by the District to offset any budget deficit the District may experience in future fiscal years. A fund balance reserve has also been established.

INVENTORY

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items are recorded as an expenditure in the governmental fund types when purchased and as an expense in the proprietary fund types when used. Reported material and supplies inventory is equally offset by a fund balances reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated and purchased food and non-food supplies, and they are expensed when used. Unused donated commodities are reported as deferred revenue.

PREPAIDS

Payments made to vendors for services that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which the services are consumed. The total of prepaid items at fiscal year end is reported as a reservation of fund balances in governmental funds because it does not represent available spendable resources.

FIXED ASSETS AND DEPRECIATION

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical cost records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The District does not possess any infrastructure.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. In proprietary funds, improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture, equipment and vehicles in the proprietary fund type is computed using the straight-line method over an estimated useful life of five to twenty years.

REVENUES – EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Exchange transactions are those in which each party to a transaction gives and receives essentially something of equal value. Proprietary funds, where the full accrual basis of accounting is used, record revenue when the exchange takes place. Governmental funds, where the modified accrual basis of accounting is used, record revenue in the fiscal year in which the resources are both measurable and available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes available as an advance at June 30, are recognized as revenue. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenues are both measurable and available. Eligibility requirements include timing requirements, which specify the fiscal 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 specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16 “Accounting for Compensated Absences”. Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met.

1. The employees’ rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Other compensated absences with characteristics similar to vacation leave are those which are not contingent on a specific event outside the control of the employer and employee.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Further, sick leave and other similar compensated absences are those which are contingent on a specific event that is outside the control of the employer and employee. The District has accrued a liability for these compensated absences using the vested method. The liability for severance payments is based upon the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive severance termination payments, as well as those employees, who have at least 15 years of service and are at least 45 years of age.

For governmental funds, that portion of the liability which is non-current is reported in the general long-term obligations account group. Liabilities that use current expendable resources are recorded in the fund from which the employees are paid. In proprietary funds, compensated absences are expensed when earned and the entire amount is reported as a fund liability.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. In general, payments made more than sixty days after fiscal year end are considered not to have been made with current available financial resources. Bonds are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

FUND BALANCES RESERVES

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations or expenditures. Designations represent tentative plans for future use of financial resources. Unreserved fund balances indicate that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventory, prepaid items, budget stabilization, property taxes and debt service principal.

INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ESTIMATES

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the of general purpose financial statements and accompanying notes. Actual results may differ from those estimates.

TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Government Fund Types and Expendable Trust Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding fiscal year-end encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balances for governmental fund types.
4. Advances are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

Adjustments necessary to convert the results of operations at the end of the fiscal year on the GAAP basis to the budget basis are as follows:

(Deficiency) of Revenues and Other Financing Sources (Under)
 Expenditures and Other Financing (Uses)
 All Governmental Fund Types and Expendable Trust Fund

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$906,627)	(\$19,955)	(\$2,787)	(\$25,514)	(\$2,958)
Net Adjustment for Revenue Accruals	14,378	51,975	(6,400)	0	0
Net Adjustment for Expenditure Accruals	(641,416)	(120,630)	0	(38,181)	(1)
Encumbrances	<u>360,975</u>	<u>20,637</u>	<u>0</u>	<u>325</u>	<u>0</u>
Budget Basis	<u>(\$1,172,690)</u>	<u>(\$67,973)</u>	<u>(\$9,187)</u>	<u>(\$63,370)</u>	<u>(\$2,959)</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits and investments are restricted by provisions of the Ohio Revised Code. Statutes require the classification of monies held by the District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits may 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 are permitted to be deposited or invested in the following securities:

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

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality, including but not limited to the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Deposits

At fiscal year end, the reported amount of the District's deposits was \$(143,334) and the bank balance was \$10,478. The entire bank balance was covered by Federal depository insurance.

Investments

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the fiscal year ended June 30, 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003. At June 30, 2003, the fair value of STAR Ohio was \$1,613,491. Investments in STAR Ohio are not categorized since they are not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents on the combined general purpose financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined general purpose financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,470,157	\$0
Investments of the Cash Management Pool:		
STAR Ohio	(1,613,491)	1,613,491
GASB Statement No. 3	(\$143,334)	\$1,613,491

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the Districts' fiscal year runs from July through June. Second half distributions occur in a subsequent fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal property used in business located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1, and are collected with real property taxes. Assessed values for real property are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 100 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the previous year. Tangible personal property assessments are 25 percent of true value.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 5 - PROPERTY TAXES (continued)

The assessed values upon which the fiscal year 2003 taxes were collected are:

	<u>2002 Second Half</u>		<u>2003 First Half</u>	
	<u>Collections</u>		<u>Collections</u>	
Real Property Valuation:				
Commercial/Industrial/Mineral	\$16,182,700	11.86%	\$14,323,400	10.43%
Residential/Agriculture	101,013,450	74.00%	103,740,050	75.59%
Public Utilities	22,500	0.02%	19,740	0.01%
Manufactured Home	2,595,705	1.90%	2,565,229	1.87%
Tangible Personal Property Valuation:				
Public Utilities	6,380,800	4.67%	7,032,370	5.12%
General	<u>10,305,591</u>	<u>7.55%</u>	<u>9,588,213</u>	<u>6.98%</u>
Total Valuation	<u><u>\$136,500,746</u></u>	<u><u>100.00%</u></u>	<u><u>\$137,269,002</u></u>	<u><u>100.00%</u></u>

Tax rate per \$1,000 of Assessed Valuation	\$60.95	\$60.95
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Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

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

The Portage County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically advances to the District their portion of the taxes collected. The amount available to the District as an advance at June 30, 2003, is available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current fiscal year operations. The amount available as an advance at June 30 and reflected in 2003 revenue was \$137,411; of which \$120,179 was available to the general fund and \$17,232 was available to the debt service fund. The amount available as an advance at June 30 is also reflected as a reservation of fund balance for future appropriations.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts, intergovernmental entitlements and grants. 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 items of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
General	\$454
Special Revenue Fund	
Drug Free	5,622
Title I Grant	36,334
Title II-A Grant	20,207
Title VI Grant	5,100
Title VI-B Grant	15,541
Title VI-R Grant	4,078
Total Special Revenue	86,882
Enterprise Fund	
Food Service	17,680
Total Intergovernmental Receivables	\$105,016

NOTE 7 – INTERFUND ASSETS AND LIABILITIES

A summary of short-term interfund loans by fund follows:

Fund	Interfund Receivable	Interfund Payable
General	\$1,888	\$0
Special Revenue:		
Drug Free	0	739
Title VI-R	0	1149
Total	\$1,888	\$1,888

NOTE 8 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2003 follows:

Furniture and Equipment	\$147,927
Vehicles	15,432
Less: Accumulated Depreciation	(112,553)
Net Fixed Assets	\$50,806

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - FIXED ASSETS (continued)

A summary of the changes in general fixed assets follows:

	Balance 07/01/2002	Additions	Deletions	Balance 06/30/2003
Land	\$376,097	\$0	\$0	\$376,097
Buildings	10,139,628	19,851	0	10,159,479
Furniture, Fixtures and Equipment	1,938,596	211,140	(134,205)	2,015,531
Vehicles	766,959	108,466	(70,614)	804,811
Construction in Progress	25,024	0	(25,024)	0
Total	<u>\$13,246,304</u>	<u>\$339,457</u>	<u>(\$229,843)</u>	<u>\$13,355,918</u>

NOTE 9 - RISK MANAGEMENT

General Insurance

The District is exposed to various risks of loss related to torts; theft; damage to or destruction of assets, errors and omissions; employee injuries; and natural disasters. The District's property and fleet insurance liability limit is \$37,233,367.

The District carries liability coverage through Nationwide Ohio School District Liability Insurance. The limits for liability coverage is \$1,000,000 each occurrence and \$3,000,000 aggregate. Employee benefits liability coverage is included in the District's liability coverage with same basic policy limits.

The District's umbrella policy has a liability limit of \$2,000,000.

There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the GRP to cover the costs of administering the program.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - RISK MANAGEMENT (continued)

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The Workers' Compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP. Each participant pays its Workers' Compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. 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 GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Portage Area Schools Consortium

The Portage Area Schools Consortium was established in 1981 so that 13 educational-service providers in the Portage County area could manage risk exposures and purchase necessary insurance coverage as a group. The Joint Self-Insurance Program for health care benefits was recently re-organized as a regional council of governments authorized by Chapter 167 of the Ohio Revised 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 Care Benefits Program. The District pays all insurance premiums directly to the consortium. Also, the insurance agreement with Portage Area Schools Consortium provides that the Consortium will reinsure through commercial companies for claims over \$100,000 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.

NOTE 10 – JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments made up of public school districts and county boards of education from Stark, Portage and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting and test scoring. Each member district pays an annual fee for the services provided by SPARCC. SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 10 – JOINTLY GOVERNED ORGANIZATIONS (continued)

Maplewood Area Joint Vocational School

The Vocational School District is also a jointly governed organization. The Board of Education for the Vocational School is comprised of representatives from each board of education of the member districts. The Maplewood Area Joint Vocational School is responsible for approving its own budget, appointing personnel, and accounting and finance-related activities. The District's students may attend the Vocational School as a high school curricular choice. The Maplewood Area Joint Vocational School receives 4.62 outside mills adjusted from the taxpayers of the James A. Garfield Local School District for its operation.

NOTE 11 - LONG-TERM DEBT OBLIGATIONS

Changes in long-term obligations of the District from July 1, 2002 through June 30, 2003, were as follows:

	Balance <u>07/01/2002</u>	Additions	Deletions	Balance <u>06/30/2003</u>
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP				
General Obligation Bonds				
3.25% - 12.902%, 03/99 - 12/24	\$6,534,992	\$0	(\$190,000)	\$6,344,992
Capital Leases Payable				
6.25%, 07/03 - 06/08	0	84,679	0	84,679
Compensated Absences Payable	706,146	0	(54,046)	652,100
Intergovernmental Payable	<u>72,861</u>	<u>58,258</u>	<u>(72,861)</u>	<u>58,258</u>
Total General Long-Term Obligations	<u><u>\$7,313,999</u></u>	<u><u>\$142,937</u></u>	<u><u>(\$316,907)</u></u>	<u><u>\$7,140,029</u></u>

The general obligation school improvement bonds will be paid from the debt service fund. Intergovernmental payables and compensated absences will be paid from the fund from which the employee is paid. The Capital Leases will be paid from the General Fund.

Principal and interest requirements to retire the school improvement bonds outstanding at June 30, 2003, are as follows:

Fiscal Year Ending <u>June 30,</u>	Principal	Interest	Total
2004	\$200,000	\$286,208	\$486,208
2005	205,000	278,410	483,410
2006	215,000	270,166	485,166
2007	85,885	405,035	490,920
Thereafter	<u>5,639,107</u>	<u>3,026,588</u>	<u>8,665,695</u>
Total	<u><u>\$6,344,992</u></u>	<u><u>\$4,266,407</u></u>	<u><u>\$10,611,399</u></u>

The bonds are backed by the full faith and credit of the District.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 11 - LONG-TERM DEBT OBLIGATIONS (continued)

The government has entered into a lease agreement for the acquisition of copier equipment. These leases meet the criteria of a capital lease as defined by Financial Accounting Standards Board (FASB) Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, were as follows:

Fiscal Year Ending June 30,	General Long-Term Obligation
2004	\$19,764
2005	19,764
2006	19,764
2007	19,764
2008	19,764
Total minimum lease payments	98,820
Less: amount representing interest	(14,141)
Present value of minimum lease payments	\$84,679

NOTE 12 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains two enterprise funds, food service and uniform school supplies, which are operated on a sales basis. The table below reflects the more significant financial data relating to the enterprise funds of the District for the fiscal year ended June 30, 2003:

	Food Service	Uniform School Supplies	Total
Operating revenues	\$294,365	\$27,815	\$322,180
Operating expenses before depreciation	(540,479)	(27,771)	(568,250)
Depreciation expense	(8,200)	0	(8,200)
Operating (loss)	(254,314)	44	(254,270)
Federal donated commodities	51,689	0	51,689
Federal and State subsidies	125,685	0	125,685
Interest	4	0	4
Operating transfers in	77,250	0	77,250
Net income/(loss)	314	44	358
Net working capital	(36,419)	5,293	(31,126)
Total assets	92,891	5,306	98,197
Total equity	14,387	5,293	19,680
Encumbrances at June 30, 2003	\$650	\$1,251	\$1,901

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - RETIREMENT PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS Ohio), a cost-sharing, multiple-employer defined benefit pension plan. SERS Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute nine percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Ohio Retirement Board. The District's required contributions to SERS Ohio for pension obligations for the fiscal years ended June 30, 2003, 2002 and 2001 were \$126,348, \$61,009 and \$71,984, respectively; 59.24 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$51,499, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and general long-term obligations account group.

State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency wholly controlled, managed and supported in whole, or in part, by the State or any political subdivision thereof.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to invest all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of 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. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - RETIREMENT PLANS (continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among nine investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying one percent of the member’s final average salary by the member’s years of service credit. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 - RETIREMENT PLANS (continued)

Prior to February 1, 2002, benefits were increased annually by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increase since retirement, less previous cost-of-living increased, up to a maximum of three percent of the original base benefit. Effective February 1, 2002, benefits are increased annually by three percent of the original base amount, regardless of the change in the CPI.

The Defined Benefit and Combined Plans offer access to health care coverage to retirees who participate in the plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2002, were 9.3 percent of covered payroll for members and 14 percent for employers. The District's required contributions to STRS Ohio for pension obligations for the fiscal years ended June 30, 2003, 2002 and 2001 were \$463,587, \$428,895 and \$416,718, respectively; 88.33 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$54,089 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2002 *Comprehensive Annual Financial Report* will be available after January 1, 2003, and can be requested by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, or by calling (614)227-4090.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

School Employees Retirement Systems

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2002, the allocation rate was 5.83 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2002, (the latest information available), the minimum pay was established as \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The District's actual contributions which were used to fund postemployment benefits, including surcharge, equaled \$108,745 during the 2003 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. At June 30, 2002, (the latest information available) expenses for health care were \$182,946,777 and the target level was \$274.4 million. The net assets available for payment of health care benefits was \$335.2 million at June 30, 2002. The number of participants currently receiving health care benefits is approximately 50,000 statewide.

State Teachers Retirement Systems

STRS Ohio provides access to health care benefits to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The District's actual contributions which were used to fund postemployment benefits equaled \$219,594 during the 2003 fiscal year.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. Effective July 1, 2002, one percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs statewide paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients statewide.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees working eleven or twelve months per year are entitled to an annual vacation, with pay, based on length of service in the District. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators working fewer than twelve months per year do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated for an unlimited number of days. For certified and classified employees, payment is made at retirement for accumulated sick leave and is determined by taking 30 percent of the employee's accumulated sick leave days to a maximum of 65 days. Employees retiring after July 1, 2003 will receive a maximum of 75 days paid in severance. The amount of accumulated vacation and sick leave of employees paid from governmental funds that meets the eligibility requirements has been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees paid from proprietary funds is recorded as an expense and liability of the fund when earned.

Retirement Incentive Plans

The Districts' Board of Education approved a three-year contract with their certified staff on September 12, 2000. This contract covers the period of July 1, 2000 through June 30, 2003. Active certified employees who have at least ten years of continuous full-time service with the District and are eligible by STRS Ohio standards to retire can elect to retire by July 1 and receive a \$15,000 bonus payable by January 31 of the calendar year following retirement. Those employees who choose not to retire the year they reach eligibility for retirement will later be ineligible to receive the \$15,000 bonus. Notification of retirement must be submitted no later than April 1 of the year of retirement or the employee will become ineligible for the bonus. The District had one certified employee elect to retire on July 1, 2003.

The District's Board of Education approved a three-year contract with their classified staff on November 19, 2000. This contract covers the period of July 1, 2000 through June 30, 2003. Active classified employees who have at least ten years of continuous full-time service with the District and are eligible by SERS standards to retire can elect to retire by July 1 and receive a bonus of one third of their last year's pay payable by January 31 of the calendar year following retirement. Those employees who choose not to retire the year they achieve thirty years service credit for retirement purposes will later be ineligible to receive the bonus. Notification of retirement must be submitted no later than April 1 of the year of retirement. The District had two classified employees elect to retire on July 1, 2003.

NOTE 16 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits

The following special revenue funds had a deficit fund balance caused by the recognition of expenditures and/or nonrecognition of revenues on the modified accrual basis of accounting which substantially differs from those recognized on the cash basis of accounting.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 16 - COMPLIANCE AND ACCOUNTABILITY (continued)

Fund	Deficit
Eisenhower Grant	(\$648)
Ohio Reads	(346)
Title I	(2,368)
Title VI	(3,744)

NOTE 17 - CONTINGENCIES

Grants

The District received financial assistance from Federal and State 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 is subject to an audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

Litigation

The District is not a party to any legal proceedings.

NOTE 18 - SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 19 - REQUIRED BUDGET SET ASIDES

The District is required by State statute to annually set aside an amount based on prior fiscal year revenues for the purpose of textbooks and other instructional materials and an additional amount for capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. Amounts may also be set aside for a budget stabilization reserve and used to offset any future budget deficit.

The following information describes the changes in the amounts set aside for budget stabilization, textbooks and instructional materials and capital improvements from the end of the prior fiscal year to the end of the current fiscal year.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 19 - REQUIRED BUDGET SET ASIDES (continued)

	Budget Stabilization Set Aside	Textbook Set Aside	Capital Improvements Set Aside
Set Aside Cash Balance as of June 30, 2002	\$50,662	(\$217,759)	\$0
Current Year Set Aside Requirement	0	214,101	214,101
Fiscal Year 2003 Addition	0	0	0
Bureau of Workers' Compensation Refunds	0	0	0
Qualifying Disbursements	0	(295,393)	(589,793)
Set Aside Cash Balance as of June 30, 2003	<u>\$50,662</u>	<u>(\$299,051)</u>	<u>(\$375,692)</u>
 Balance Carried Forward to Fiscal Year 2004	 <u>\$50,662</u>	 <u>(\$299,051)</u>	 <u>\$0</u>

Since the qualifying expenditures and offsets for the capital improvements set aside exceeded the fiscal year 2003 requirement, no amount will be carried forward to the next fiscal year.

The District may use the negative amount in the textbooks/instructional materials set aside to reduce set aside requirements of future fiscal years.

Amounts remaining at fiscal year end are represented by cash and cash equivalents and are presented as restricted assets on the Combined Balance Sheet. Corresponding amounts are reported as reserves of fund balances.

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$47,134		\$47,134
School Breakfast Program	049205-05PU2002 049205-05PU2003	10.553	\$2,137 12,122		\$2,137 12,122	
Total School Breakfast Program			14,259		14,259	
National School Lunch Program	049205-LLP42002 049205-LLP42003	10.555	12,450 76,088		12,450 76,088	
Total National School Lunch Program			88,538		88,538	
Total U.S. Department of Agriculture - Nutrition Cluster			102,797	47,134	102,797	47,134
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States	049205-6BSF-2001P 049205-6BSF-2002P 049205-6BSF-2003P	84.027	- 1,440 125,691		7,308 11,921 115,829	
Total Special Education Grants to States			127,131		135,058	
Special Education - Preschool Grants	049205-PGS1-2002P 049205-PGS1-2003P	84.173	1,132 3,439		1,132 3,439	
Total Special Education - Preschool Grants			4,571		4,571	
Total Special Education Cluster			131,702		139,629	
Eisenhower Professional Development State Grants	049205-MSS1-2001 049205-MSS1-2002	84.281	- 939		1,287 4,589	
Total Eisenhower Professional Development State Grants			939		5,876	
Title I Grants to Local Educational Agencies	049205-C1S1-2002 049205-C1S1-2003	84.010	14,599 148,759		41,931 140,679	
			163,358		182,610	
Innovative Educational Program Strategies	049205-C2S1-2002 049205-C2S1-2003	84.298	407 3,522		- 3,062	
Total Innovative Education Program Strategies			3,929		3,062	
Safe and Drug Free Schools and Communities- State Grants	049205-DRS1-2001 049205-DRS1-2002 049205-DRS1-2003	84.186	- (1,202) 6,393		893 2,900 2,426	
Total Safe & Drug Free Schools & Communities-State Grants			5,191		6,219	
Class Size Reduction	049205-CRS1-2002	84.340	9,473		20,681	
Technology Literacy Challenge Fund Grants	049205-TJS1-2003	84.318	895		-	
School Renovation I & T	049205-ATS2-2002 049205-ATS3-2002 049205-ATS4-2002	84.352A	4,541 2,922 5,860		4,540 2,911 -	
Total School Renovation I & T			13,323		7,451	
Improving Teacher Quality State Grants	049205-TRS1-2003	84.367	53,583		46,371	
Total Department of Education			382,393		411,899	
Totals			\$485,190	\$47,134	\$514,696	\$47,134

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of James A. Garfield Local School District, Portage County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 18, 2003.

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

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

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

Betty Montgomery
Auditor of State

November 18, 2003



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

We have audited the compliance of James A. Garfield Local School District, Portage County (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

November 18, 2003

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title 1, Part A, ESEA - CFDA No. 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

Finding Number	N/A – No finding is reported
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	N/A – No finding is reported
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**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140
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800-282-0370
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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
FEBRUARY 10, 2004**