

**JAMES A. GARFIELD LOCAL
SCHOOL DISTRICT**

PORTAGE COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2007***

TRACY KNAUER, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the James A. Garfield Local School District, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2006 to June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 21, 2007

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JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
PORTAGE COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

October 30, 2007

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of James A. Garfield Local School District (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2007, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2007 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the James A. Garfield Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$404,855 which represents a 14.77% increase from 2006.
- General revenues accounted for \$11,094,815 in revenue or 81.82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,464,295 or 18.18% of total revenues of \$13,559,110.
- The District had \$13,154,255 in expenses related to governmental activities; \$2,464,295 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,094,815 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$11,754,467 in revenues and other financing sources and \$11,726,719 in expenditures and other financing uses. During fiscal year 2007, the general fund's fund balance increased \$27,748 from \$779,448 to \$807,196.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-49 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis has been provided.

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 7,882,996	\$ 7,245,776
Capital assets, net	<u>8,185,478</u>	<u>8,082,694</u>
Total assets	<u>16,068,474</u>	<u>15,328,470</u>
<u>Liabilities</u>		
Current liabilities	6,313,968	5,891,468
Long-term liabilities	<u>6,607,613</u>	<u>6,694,964</u>
Total liabilities	<u>12,921,581</u>	<u>12,586,432</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,680,177	1,979,183
Restricted	437,693	370,934
Unrestricted	<u>29,023</u>	<u>391,921</u>
Total net assets	<u>\$ 3,146,893</u>	<u>\$ 2,742,038</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$3,146,893. Of this total, \$437,693 is restricted in use.

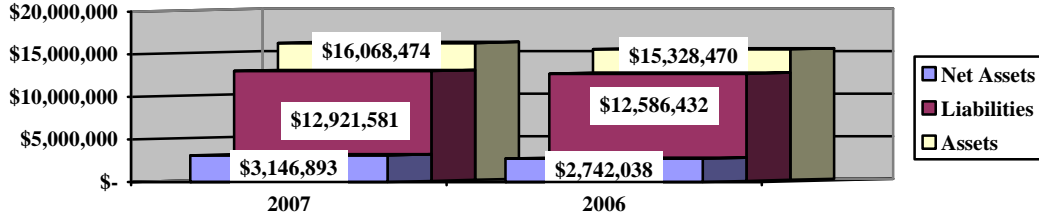
At year-end, capital assets represented 50.95% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$2,680,177. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$437,693, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$29,023 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Governmental Activities



The table below shows the change in net assets for fiscal year 2007 and 2006.

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,252,659	\$ 1,203,906
Operating grants and contributions	1,199,885	830,013
Capital grants and contributions	11,751	17,664
General revenues:		
Property taxes	4,725,877	4,723,793
Grants and entitlements	6,110,624	6,328,136
Investment earnings	159,488	104,262
Miscellaneous	<u>98,826</u>	<u>48,664</u>
 Total revenues	 <u>\$ 13,559,110</u>	 <u>\$ 13,256,438</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,248,657	\$ 5,777,371
Special	1,278,214	1,013,825
Adult/Continuing	5,050	2,900
Other	5,943	91,982
Support services:		
Pupil	546,914	554,467
Instructional staff	403,087	410,817
Board of education	27,829	36,062
Administration	967,121	1,130,118
Fiscal	329,126	305,221
Operations and maintenance	1,139,344	1,304,010
Pupil transportation	921,162	931,954
Central	39,454	43,834
Operations of non-instructional services:		
Non-instructional services	376	23,557
Food service operations	538,445	570,321
Extracurricular activities	463,663	418,139
Interest and fiscal charges	<u>239,870</u>	<u>342,010</u>
Total expenses	<u>13,154,255</u>	<u>12,956,588</u>
Change in net assets	404,855	299,850
Net assets at beginning of year	<u>2,742,038</u>	<u>2,442,188</u>
Net assets at end of year	<u>\$ 3,146,893</u>	<u>\$ 2,742,038</u>

Governmental Activities

Net assets of the District's governmental activities increased \$404,855. Total governmental expenses of \$13,154,255 were offset by program revenues of \$2,464,295 and general revenues of \$11,094,815. Program revenues supported 18.73% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 79.92% of total governmental revenue.

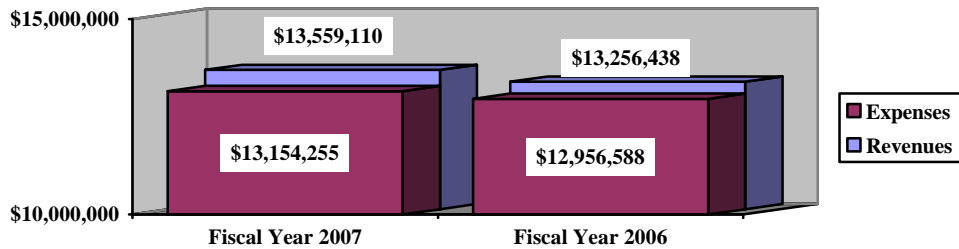
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,537,864 or 57.31% of total governmental expenses for fiscal 2007.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The following is a comparison of 2007 and 2006.

Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 6,248,657	\$ 5,383,930	\$ 5,777,371	\$ 5,010,237
Special	1,278,214	616,474	1,013,825	767,636
Adult/continuing	5,050	-	2,900	-
Other	5,943	(889)	91,982	73,385
Support services:				
Pupil	546,914	487,722	554,467	493,670
Instructional staff	403,087	298,828	410,817	252,878
Board of education	27,829	27,829	36,062	36,062
Administration	967,121	925,461	1,130,118	1,057,672
Fiscal	329,126	329,126	305,221	305,221
Operations and maintenance	1,139,344	1,139,344	1,304,010	1,304,010
Pupil transportation	921,162	871,005	931,954	931,954
Central	39,454	23,074	43,834	(1,020)
Operations of non-instructional services:				
Non-instructional services	376	376	23,557	5,227
Food service operations	538,445	2,815	570,321	8,849
Extracurricular activities	463,663	344,995	418,139	317,214
Interest and fiscal charges	239,870	239,870	342,010	342,010
Total expenses	<u>\$ 13,154,255</u>	<u>\$ 10,689,960</u>	<u>\$ 12,956,588</u>	<u>\$ 10,905,005</u>

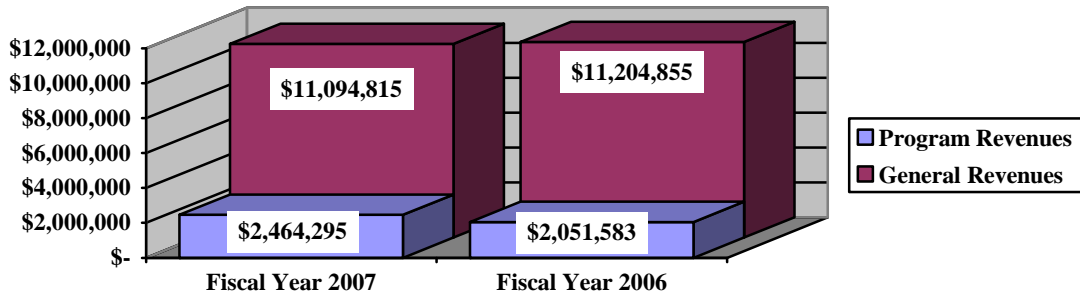
The dependence upon tax and other general revenues for governmental activities is apparent, 79.59% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.27%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,168,594, which is greater than last year's total of \$1,108,637. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	<u>Fund Balance June 30, 2007</u>	<u>Fund Balance June 30, 2006</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 807,196	\$ 779,448	\$ 27,748	3.56%
Other Governmental	<u>361,398</u>	<u>329,189</u>	<u>32,209</u>	9.78%
Total	<u>\$ 1,168,594</u>	<u>\$ 1,108,637</u>	<u>\$ 59,957</u>	5.41%

General Fund

The District's general fund balance increased \$27,748. The table that follows assists in illustrating the financial activities of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,284,894	\$ 4,177,359	\$ 107,535	2.57 %
Tuition	748,757	667,491	81,266	12.17 %
Earnings on investments	158,784	103,239	55,545	53.80 %
Intergovernmental	6,506,708	6,273,323	233,385	3.72 %
Other revenues	<u>22,755</u>	<u>47,931</u>	<u>(25,176)</u>	(52.53) %
Total	<u>\$ 11,721,898</u>	<u>\$ 11,269,343</u>	<u>\$ 452,555</u>	4.02 %
<u>Expenditures</u>				
Instruction	\$ 6,944,753	\$ 6,370,326	\$ 574,427	9.02 %
Support services	4,404,017	4,324,939	79,078	1.83 %
Extracurricular activities	341,171	313,981	27,190	8.66 %
Capital outlay	-	145,939	(145,939)	(100.00) %
Debt service	<u>33,924</u>	<u>56,057</u>	<u>(22,133)</u>	(39.48) %
Total	<u>\$ 11,723,865</u>	<u>\$ 11,211,242</u>	<u>\$ 512,623</u>	4.57 %

The significant increase in earnings on investments is primarily due to an increase in the amount of investments due to an increase in the overall cash balance invested by the District and an increase in interest rates. The increase in tuition is due to the increased number of students from open enrollment. The decrease in capital outlay is due to lack of new leases during fiscal year 2007.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the District amended its general fund budget a few times. For the general fund, original budgeted revenues and other financing sources were \$11,652,428 and final budgeted revenues and other financing sources were \$11,930,449. Actual revenues and other financing sources for fiscal 2007 were \$11,907,926. This represents a \$22,523 decrease below final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$12,076,520 were increased to \$12,137,290 in the final appropriations. The actual budget basis expenditures for fiscal year 2007 totaled \$11,859,716, which was \$277,574 below the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$8,185,478 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 118,773	\$ 118,773
Building and improvements	7,282,172	7,237,511
Furniture and equipment	341,958	363,055
Vehicles	<u>442,575</u>	<u>363,355</u>
Total	<u>\$ 8,185,478</u>	<u>\$ 8,082,694</u>

The overall increase in capital assets of \$102,784 is due to capital outlays of \$524,919 being greater than depreciation expense of \$368,934 and disposals of \$53,201 (net of accumulated depreciation) in the current fiscal year.

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

Debt Administration

At June 30, 2007, the District had \$5,787,526 in general obligation bonds and \$122,505 in capital lease obligations outstanding. The general obligation bonds consist of current interest bonds and capital appreciation bonds. The capital appreciation bonds include accreted interest in the amount of \$148,423 and mature during fiscal years 2008, 2011 and 2012. Of this total, \$330,317 is due within one year and \$5,579,714 is due in more than one year. The following table summarizes the bonds and leases outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 5,787,526	\$ 5,957,572
Capital lease obligations	<u>122,505</u>	<u>145,939</u>
Total	<u>\$ 5,910,031</u>	<u>\$ 6,103,511</u>

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activities

The Board of Education and administration closely monitor its revenue and expenditures in accordance with its financial forecast. The District has communicated to its community the reliance upon their support for the majority of its operations, and that it will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan.

With state funding accounting for approximately half of the District's revenue, the economic plight of the State causes concern for the District. In an attempt to attract more businesses, Ohio has started to phase out the local personal property tax charged to businesses for equipment, machinery, furniture, fixtures and inventory. This local property tax is being replaced with the statewide CAT tax which is based on sales receipts. While local tax districts are being held harmless for five years, this revenue source will be phased out through fiscal year 2018. Due to the originality of the CAT tax and the length of time involved in the phase out, the effects of this change on the District remains to be seen.

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,572,927
Receivables:	
Taxes	5,022,962
Accounts	813
Intergovernmental	104,849
Prepayments.	23,458
Materials and supplies inventory	52,346
Unamortized bond issue costs.	105,641
Capital assets:	
Land.	118,773
Depreciable capital assets, net	8,066,705
Total capital assets, net	8,185,478
 Total assets.	 16,068,474
 Liabilities:	
Accounts payable.	28,738
Accrued wages and benefits	1,118,355
Compensated absences payable.	132,900
Retirement incentive payable.	175,000
Pension obligation payable.	282,615
Intergovernmental payable	30,828
Unearned revenue	4,527,686
Accrued interest payable	17,846
Long-term liabilities:	
Due within one year.	376,205
Due in more than one year	6,231,408
 Total liabilities	 12,921,581
 Net Assets:	
Invested in capital assets, net of related debt.	2,680,177
Restricted for:	
Debt service.	307,404
Locally funded programs	7
State funded programs.	13,667
Federally funded programs	12,363
Student activities	35,470
Other purposes	68,782
Unrestricted	29,023
 Total net assets	 \$ 3,146,893

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 6,248,657	\$ 762,309	\$ 102,418	\$ -	\$ (5,383,930)
Special	1,278,214	5,556	656,184	-	(616,474)
Adult/continuing	5,050	-	5,050	-	-
Other	5,943	-	6,832	-	889
Support services:					
Pupil	546,914	-	59,192	-	(487,722)
Instructional staff	403,087	-	104,259	-	(298,828)
Board of education	27,829	-	-	-	(27,829)
Administration	967,121	12,509	29,151	-	(925,461)
Fiscal	329,126	-	-	-	(329,126)
Operations and maintenance	1,139,344	-	-	-	(1,139,344)
Pupil transportation	921,162	1,440	36,966	11,751	(871,005)
Central	39,454	11,075	5,305	-	(23,074)
Operation of non-instructional services:					
Non-instructional services	376	-	-	-	(376)
Food service operations	538,445	341,102	194,528	-	(2,815)
Extracurricular activities	463,663	118,668	-	-	(344,995)
Interest and fiscal charges	239,870	-	-	-	(239,870)
Totals	\$ 13,154,255	\$ 1,252,659	\$ 1,199,885	\$ 11,751	(10,689,960)

General Revenues:

Property taxes levied for:	
General purposes	4,293,407
Debt service	432,470
Grants and entitlements not restricted to specific programs	
Investment earnings	159,488
Miscellaneous	98,826
Total general revenues	11,094,815
Change in net assets	404,855
Net assets at beginning of year	2,742,038
Net assets at end of year	\$ 3,146,893

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,122,522	\$ 392,623	\$ 2,515,145
Receivables:			
Taxes	4,568,309	454,653	5,022,962
Accounts	562	251	813
Intergovernmental.	8,244	96,605	104,849
Interfund loans	1,697	-	1,697
Prepayments	23,085	373	23,458
Materials and supplies inventory.	29,976	22,370	52,346
Restricted assets:			
Equity in pooled cash and cash equivalents	57,782	-	57,782
 Total assets.	 <u>\$ 6,812,177</u>	 <u>\$ 966,875</u>	 <u>\$ 7,779,052</u>
Liabilities:			
Accounts payable	\$ 23,027	\$ 5,711	\$ 28,738
Accrued wages and benefits	1,020,355	98,000	1,118,355
Compensated absences payable.	132,900	-	132,900
Retirement incentive payable.	175,000	-	175,000
Pension obligation payable	250,658	31,957	282,615
Intergovernmental payable	26,931	3,897	30,828
Interfund loan payable	-	1,697	1,697
Unearned revenue.	4,115,716	411,970	4,527,686
Deferred revenue	260,394	52,245	312,639
 Total liabilities	 <u>6,004,981</u>	 <u>605,477</u>	 <u>6,610,458</u>
Fund Balances:			
Reserved for encumbrances.	240,396	18,942	259,338
Reserved for prepayments	23,085	373	23,458
Reserved for materials and supplies inventory.	29,976	22,370	52,346
Reserved for property tax unavailable for appropriation.	192,199	21,234	213,433
Reserved for budget stabilization	50,662	-	50,662
Reserved for school bus purchases.	7,120	-	7,120
Unreserved, undesignated, reported in:			
General fund.	263,758	-	263,758
Special revenue funds	-	15,912	15,912
Debt service fund	-	282,567	282,567
 Total fund balances	 <u>807,196</u>	 <u>361,398</u>	 <u>1,168,594</u>
 Total liabilities and fund balances	 <u>\$ 6,812,177</u>	 <u>\$ 966,875</u>	 <u>\$ 7,779,052</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	1,168,594
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			8,185,478
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	281,843	
Intergovernmental revenue		30,796	
Total		312,639	312,639
Unamortized bond issue costs are not recognized in the funds			105,641
Unamortized premiums on bond issuance is not recognized in the funds.			(261,737)
Unamortized deferred charges on refundings are not recognized in the funds.			150,666
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(17,846)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		5,798,166	
Compensated absences		575,871	
Capital lease obligation		122,505	
Total		6,496,542	(6,496,542)
Net assets of governmental activities		\$	3,146,893

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 4,284,894	\$ 430,759	\$ 4,715,653
Tuition.	748,757	-	748,757
Transportation fees.	1,440	-	1,440
Earnings on investments.	158,784	704	159,488
Charges for services.	-	341,102	341,102
Extracurricular.	-	142,252	142,252
Classroom materials and fees.	988	18,120	19,108
Donations and contributions	-	12,191	12,191
Other local revenues	20,327	66,308	86,635
Intergovernmental - State	6,474,579	110,132	6,584,711
Intergovernmental - Federal.	32,129	676,152	708,281
Total revenues.	<u>11,721,898</u>	<u>1,797,720</u>	<u>13,519,618</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,934,198	109,034	6,043,232
Special.	1,009,562	265,875	1,275,437
Adult/Continuing education.	-	5,050	5,050
Other	993	6,779	7,772
Support Services:			
Pupil.	487,254	60,621	547,875
Instructional staff	287,845	106,383	394,228
Board of education	27,829	-	27,829
Administration.	848,591	68,121	916,712
Fiscal	317,816	8,695	326,511
Operations and maintenance.	1,396,436	-	1,396,436
Pupil transportation	1,038,246	-	1,038,246
Central.	-	39,454	39,454
Operation of non-instructional services:			
Non-instructional services	-	376	376
Food service operations	-	566,333	566,333
Extracurricular activities.	341,171	120,788	461,959
Debt service:			
Principal retirement	23,434	85,885	109,319
Interest and fiscal charges	10,490	330,500	340,990
Bond issue costs.	-	107,663	107,663
Total expenditures	<u>11,723,865</u>	<u>1,881,557</u>	<u>13,605,422</u>
Deficiency of revenues under expenditures	<u>(1,967)</u>	<u>(83,837)</u>	<u>(85,804)</u>
Other financing sources (uses):			
Transfers in.	-	2,854	2,854
Transfers out	(2,854)	-	(2,854)
Sale of refunded bonds.	-	5,104,996	5,104,996
Premium on sale of refunded bonds.	-	266,746	266,746
Payment to refunding bond escrow agent.	-	(5,258,550)	(5,258,550)
Sale of capital assets	32,569	-	32,569
Total other financing sources (uses)	<u>29,715</u>	<u>116,046</u>	<u>145,761</u>
Net change in fund balances	27,748	32,209	59,957
Fund balances at beginning of year	<u>779,448</u>	<u>329,189</u>	<u>1,108,637</u>
Fund balances at end of year	<u>\$ 807,196</u>	<u>\$ 361,398</u>	<u>\$ 1,168,594</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	59,957
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Capital outlays exceed depreciation expense in the current period accordingly.		
Capital asset additions	\$ 524,919	
Current year depreciation	(368,934)	
Total		155,985
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(53,201)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	10,224	
Intergovernmental	29,268	
Total		39,492
Premiums on refunding bonds are recognized as an other financing source in the governmental funds; however, they are amortized over the life of the issuance in the statement of activities.		
		(261,737)
Bond issue costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		105,641
The issuance of refunding bonds are recorded as an other financing source in the governmental funds; however, the proceeds increase long-term liabilities on the statement net assets.		
		(5,104,996)
Payments to refunding bond escrow agents are an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets.		
		5,105,000
Deferred charges on refundings are recognized as expenditures in the governmental funds; however, they are amortized over the life of the issuance in the statement of activities.		
		150,666
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		248,434
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
Accrued interest	27,500	
Accreted interest on capital appreciation bonds	(65,598)	
Total		(38,098)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(2,288)
Change in net assets of governmental activities	\$	404,855

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,238,363	\$ 4,339,488	\$ 4,339,338	\$ (150)
Tuition	731,311	748,760	748,757	(3)
Transportation fees	1,465	1,500	1,440	(60)
Earnings on investments	155,197	158,900	158,784	(116)
Classroom materials and fees	977	1,000	988	(12)
Other local revenues	91,013	93,185	75,980	(17,205)
Intergovernmental - State	6,323,838	6,474,722	6,474,579	(143)
Intergovernmental - Federal	34,185	35,000	30,235	(4,765)
Total revenues	11,576,349	11,852,555	11,830,101	(22,454)
Expenditures:				
Current:				
Instruction:				
Regular	5,717,434	5,753,614	5,717,062	36,552
Special	1,136,681	1,143,874	1,120,435	23,439
Other	13,365	13,450	11,705	1,745
Support Services:				
Pupil	482,213	485,264	478,830	6,434
Instructional staff	341,813	343,976	333,618	10,358
Board of education	23,500	23,649	20,315	3,334
Administration	969,445	975,580	928,218	47,362
Fiscal	312,768	314,747	294,766	19,981
Operations and maintenance	1,552,331	1,562,154	1,492,142	70,012
Pupil transportation	1,074,566	1,081,366	1,057,032	24,334
Central	85,956	86,500	60,914	25,586
Extracurricular activities	343,940	346,277	341,277	5,000
Total expenditures	12,054,012	12,130,451	11,856,314	274,137
Excess of revenues over (under) expenditures	(477,663)	(277,896)	(26,213)	251,683
Other financing sources (uses):				
Refund of prior year expenditure	37,041	37,925	37,861	(64)
Transfers (out)	(18,548)	(2,854)	(2,854)	-
Advances in	7,228	7,400	7,395	(5)
Advances (out)	(3,960)	(3,985)	(548)	3,437
Sale of capital assets	31,810	32,569	32,569	-
Total other financing sources (uses)	53,571	71,055	74,423	3,368
Net change in fund balance	(424,092)	(206,841)	48,210	255,051
Fund balance at beginning of year	1,589,268	1,589,268	1,589,268	-
Prior year encumbrances appropriated	286,163	286,163	286,163	-
Fund balances at end of year	\$ 1,451,339	\$ 1,668,590	\$ 1,923,641	\$ 255,051

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2007

		<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$	26,041
Receivables:		
Accounts		<u>52</u>
Total assets	\$	<u><u>26,093</u></u>
Liabilities:		
Accounts payable.	\$	120
Due to students.		<u>25,973</u>
Total liabilities	\$	<u><u>26,093</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District ranks as 341st largest by enrollment among the 876 public and community school districts in the state. The District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the District's four instructional/support facilities staffed by 63 non certificated and 104 certificated full time teaching personnel, including 9 administrators, who provide services to 1,579 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC)

SPARCC is a data consortium of 31 school districts. SPARCC was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the governments of these schools supports SPARCC based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last 12 months' financial contribution. SPARCC is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in SPARCC because a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 39th Street NW, Canton, Ohio 44709-2300.

Portage County School Consortium (the "Consortium")

Portage County School Consortium is an insurance group-purchasing consortium made up of fourteen school districts in Columbiana, Portage and Mahoning Counties. All member districts pay an insurance premium directly to the consortium. The District paid \$1,502,745 in the form of health care premiums to the Consortium for the current fiscal year.

Maplewood Career Center

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

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

Unearned Revenue and Deferred Revenue – Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

E. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2007. The amounts reported as the original budgeted expenditure amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted expenditure amounts represent the final appropriation amounts passed by the Board during the year.

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

F. Cash and Investments

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

During fiscal year 2007, investments were limited to repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2007. 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, 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$158,784, which includes \$24,779 assigned from other District funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

On government-wide financial statements, issuance costs are defined and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the Statement of Net Assets.

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount received for budget stabilization and school bus purchases. See Note 17 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 30,593
School Net Professional Development	8
Poverty Aid	4,381
Title VI-B	3,008
Title I	9,869
Title V	8
Miscellaneous Federal Grants	1,149

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Protection of 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.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$790,824, which is exclusive of repurchase agreements and Star Ohio. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2007, \$744,803 of the District’s bank balance of \$946,396 was exposed to custodial risk as discussed below, while \$201,593 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase Agreement	\$ 99,885	\$ 99,885
STAR Ohio	<u>1,708,259</u>	<u>1,708,259</u>
	<u>\$ 1,808,144</u>	<u>\$ 1,808,144</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor’s has assigned STAR Ohio a AAAM money market rating.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's \$99,885 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 99,885	5.52%
STAR Ohio	<u>1,708,259</u>	<u>94.48%</u>
	<u>\$ 1,808,144</u>	<u>100.00%</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 790,824
Investments	<u>1,808,144</u>
Total	<u>\$ 2,598,968</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,572,927
Agency fund	<u>26,041</u>
Total	<u>\$ 2,598,968</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
General	Nonmajor special revenue funds	\$ 1,697

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 2,854

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2007, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Portage County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance has been recorded as revenue.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amount available as an advance at June 30, 2007 was \$192,199 in the general fund and \$21,234 in a nonmajor fund. The amount available as an advance at June 30, 2006, was \$246,643 in the general fund and \$29,408 in a nonmajor fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$145,901,345	92.23	\$161,413,080	94.28
Public utility personal	5,347,720	3.38	6,024,995	3.52
Tangible personal property	<u>6,941,310</u>	<u>4.39</u>	<u>3,780,825</u>	<u>2.20</u>
 Total	 <u>\$158,190,375</u>	 <u>100.00</u>	 <u>\$171,218,900</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 70.23		 \$ 69.46	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 5,022,962
Accounts	813
Intergovernmental	<u>104,849</u>
 Total	 <u>\$ 5,128,624</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance			Balance
	<u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 118,773	\$ -	\$ -	\$ 118,773
Total capital assets, not being depreciated	<u>118,773</u>	<u>-</u>	<u>-</u>	<u>118,773</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	240,774	-	-	240,774
Buildings	10,163,991	248,487	-	10,412,478
Furniture, fixtures and equipment	933,766	76,994	(97,416)	913,344
Vehicles	<u>1,036,756</u>	<u>199,438</u>	<u>(286,117)</u>	<u>950,077</u>
Total capital assets, being depreciated	<u>12,375,287</u>	<u>524,919</u>	<u>(383,533)</u>	<u>12,516,673</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(240,774)	-	-	(240,774)
Buildings	(2,926,480)	(203,826)	-	(3,130,306)
Furniture, fixtures and equipment	(570,711)	(73,814)	73,139	(571,386)
Vehicles	<u>(673,401)</u>	<u>(91,294)</u>	<u>257,193</u>	<u>(507,502)</u>
Total accumulated depreciation	<u>(4,411,366)</u>	<u>(368,934)</u>	<u>330,332</u>	<u>(4,449,968)</u>
Total capital assets being depreciated, net	<u>7,963,921</u>	<u>155,985</u>	<u>(53,201)</u>	<u>8,066,705</u>
Governmental activities capital assets, net	<u>\$ 8,082,694</u>	<u>\$ 155,985</u>	<u>\$ (53,201)</u>	<u>\$ 8,185,478</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 195,064
Special	4,947

Support Services:

Pupil	669
Instructional Staff	11,581
Administration	37,067
Fiscal	776
Operations and Maintenance	21,468
Pupil Transportation	85,729
Extracurricular Activities	3,469
Food Service Operation	<u>8,164</u>

Total depreciation expense \$ 368,934

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for copier equipment. These lease agreements met the criteria of a capital lease as defined by 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. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of office equipment have been capitalized in the amount of \$145,939. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2007 was \$27,798, leaving a current book value of \$118,141. Principal payments in fiscal year 2007 totaled \$23,434 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Year</u>	<u>Total</u>
2008	\$ 33,924
2009	33,924
2010	33,924
2011	33,924
2012	<u>8,481</u>
Total	144,177
Interest	<u>(21,672)</u>
Present value	<u>\$ 122,505</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Balance at 06/30/06	Additions	Reductions	Balance at 06/30/07	Amounts Due in One Year
General obligation bonds	\$ 5,957,572	\$ 5,170,594	\$ (5,330,000)	\$ 5,798,166	\$ 305,000
Capital lease obligation	145,939	-	(23,434)	122,505	25,317
Compensated absences	591,453	47,835	(63,417)	575,871	45,888
Total	\$ 6,694,964	\$ 5,218,429	\$ (5,416,851)	6,496,542	\$ 376,205
Less: Unamortized deferred charge on refunding				(150,666)	
Add: Unamortized premium on refunding				261,737	
Total on statement of net assets				\$ 6,607,613	

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

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

- B. During fiscal year 1999, the District issued bonds for improvement and construction of classroom facilities in the amount of \$6,899,992. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

This issue is comprised of both current interest bonds, par value \$6,740,000, and capital appreciation bonds, par value \$159,992. The interest rates on the current interest bonds range from 3.25% to 5.00%. The capital appreciation bonds mature on December 1, 2007 (effective interest 12.902%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2007 was \$74,107. Total accreted interest of \$145,893 has been included in the statement of activities.

During fiscal year 2007, the District made the required \$225,000 principal payment on the capital appreciation bonds then refunded the callable portion (\$5,105,000) of the current interest bonds. None of the capital appreciation bonds were refunded.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS – (Continued)

The following is a schedule of activity for fiscal 2007 on the 1999 series general obligation bonds:

	Balance Outstanding			Balance Outstanding		Amounts Due in
	<u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/07</u>	<u>One Year</u>	
General obligation bonds - series 1997:						
Current interest bonds	\$ 5,565,000	\$ -	\$ (5,105,000)	\$ 460,000	\$ -	-
Capital appreciation bonds	159,992	-	(85,885)	74,107	74,107	74,107
Accreted interest	<u>232,580</u>	<u>52,428</u>	<u>(139,115)</u>	<u>145,893</u>	<u>145,893</u>	<u>145,893</u>
Total G.O. bonds - series 1997	<u>\$ 5,957,572</u>	<u>\$ 52,428</u>	<u>\$ (5,330,000)</u>	<u>\$ 680,000</u>	<u>\$ 220,000</u>	<u>\$ 220,000</u>

The following is a summary of the future debt service requirements to maturity for the 1999 series general obligation bonds:

Fiscal Year <u>Ending June 30,</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 19,550	\$ 19,550	\$ 74,107	\$ 145,893	\$ 220,000
2009	225,000	14,769	239,769	-	-	-
2010	<u>235,000</u>	<u>4,994</u>	<u>239,994</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 460,000</u>	<u>\$ 39,313</u>	<u>\$ 499,313</u>	<u>\$ 74,107</u>	<u>\$ 145,893</u>	<u>\$ 220,000</u>

- C. On March 1, 2007, the District issued general obligation bonds (Series 2007 Refunding Bonds) to advance refund the callable portion of the Series 1999 Current Interest General Obligation Bonds (callable principal \$5,105,000). The issuance proceeds of \$5,258,550 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$4,865,000, and capital appreciation bonds, par value \$239,996. The capital appreciation bonds mature December 1, 2010 and December 1, 2011 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2007 was \$239,996. Total accreted interest of \$13,170 has been included in the statement of activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS – (Continued)

The following is a schedule of activity for fiscal 2007 on the 2007 series refunding bonds:

	Balance Outstanding			Balance Outstanding			Amounts Due in
	<u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/07</u>	<u>One Year</u>		
Refunding bonds - series 2007:							
Current interest bonds	\$ -	\$ 4,865,000	\$ -	\$ 4,865,000	\$ 85,000		
Capital appreciation bonds	-	239,996	-	239,996	-		
Accreted interest	-	13,170	-	13,170	-		
Total refunding bonds - series 2007	<u>\$ -</u>	<u>\$ 5,118,166</u>	<u>\$ -</u>	<u>\$ 5,118,166</u>	<u>\$ 85,000</u>		

The reacquisition price exceeded the net carrying amount of the old debt by \$153,550. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next eighteen years by \$461,311 and resulted in an economic gain of \$226,203.

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

Fiscal Year Ending June 30,	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 85,000	\$ 192,900	\$ 277,900	\$ -	\$ -	\$ -
2009	40,000	190,400	230,400	-	-	-
2010	40,000	188,800	228,800	-	-	-
2011	-	188,000	188,000	132,240	152,760	285,000
2012	-	188,000	188,000	107,756	177,244	285,000
2013-2017	1,535,000	790,900	2,325,900	-	-	-
2018-2022	1,865,000	452,100	2,317,100	-	-	-
2023-2025	1,300,000	79,400	1,379,400	-	-	-
Total	<u>\$ 4,865,000</u>	<u>\$ 2,270,500</u>	<u>\$ 7,135,500</u>	<u>\$ 239,996</u>	<u>\$ 330,004</u>	<u>\$ 570,000</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 10 - LONG-TERM OBLIGATIONS – (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$9,898,743 (including available funds of \$303,801) and an unvoted debt margin of \$165,777.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Group Health and Dental Insurance

Health, life, dental and other group insurance is offered to employees as a fringe benefit. Employer and employee contributions to premium are determined by negotiated agreements with employee labor unions (currently, single and family coverage is 100% Board paid; the employee co-pay for family medical coverage is 20% of the difference between the family medical plan and single medical plan; prescription and dental coverage premiums are 100% Board paid.).

C. Early Retirement Incentive

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 11 - OTHER EMPLOYEE BENEFITS

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

For certified employees, the amount of the retirement incentive is a one-time payment of \$15,000 to be made by January 31st of the year following retirement. For one year only, any employee who was eligible to retire under STRS Ohio as of April 1, 2007, or became eligible for retirement before June 30, 2007 was eligible to received a \$25,000 retirement incentive bonus instead of \$15,000, if the employee notified the District as of April 1, 2007 and retired by July 1, 2007. During fiscal year 2007, seven certified employees qualified and took the \$25,000 bonus. Teachers who become first-time eligible with thirty years of service credit under STRS Ohio during fiscal year 2008 or 2009 shall also receive the \$25,000 retirement incentive bonus.

For classified employees, the amount of the retirement incentive bonus is a one-time payment equal to one third of the employee's previous year's pay to be made by January 31st of the year following retirement. No classified employees took the retirement incentive bonus during fiscal year 2007.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District participates in the Portage County School Consortium (the "Consortium"), which is a cooperative entity among 14 educational-service providers formed in 1981 to facilitate effective risk management and to share the cost of providing various insurance coverages and employee benefits. The Health and Welfare Trust is organized under the provisions of Section 501(c) (9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. The insurance agreement with the Consortium also provides that the Consortium will reinsure through commercial companies for claims over \$150,000 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT – (Continued)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2007, the District contracted with the following carriers for various insurance coverages, as follows:

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

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

B. Workers’ Compensation Group Rating Plan

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

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

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to SERS, a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS’ website, www.ohsers.org, under Forms and Publications.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$180,179, \$188,828, and \$173,354, 46.30% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005. \$96,752 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in STRS Ohio, a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$698,488, \$662,118, and \$651,545; 83.65% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005. \$114,225 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$13,926 made by the District and \$32,139 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$53,730 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$88,348 to fund health care benefits, including the surcharge.

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 target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 48,210
Net adjustment for revenue accruals	(108,203)
Net adjustment for expenditure accruals	(124,375)
Net adjustment for other sources/uses	(44,547)
Adjustment for encumbrances	<u>256,663</u>
GAAP basis	<u>\$ 27,748</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2006	\$ (130,108)	\$ -	\$ 50,662
Current year set-aside requirement	238,187	238,187	-
Qualifying disbursements	<u>(223,652)</u>	<u>(932,271)</u>	<u>-</u>
Total	<u>\$ (115,573)</u>	<u>\$ (694,084)</u>	<u>\$ 50,662</u>
Balance carried forward to FY 2008	<u>\$ (115,573)</u>	<u>\$ -</u>	<u>\$ 50,662</u>

In addition to the above statutory reserves, the District has \$7,120 restricted for school bus purchases. A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Amount restricted for school bus purchases	\$ 7,120
Amount restricted for budget stabilization	<u>50,662</u>
Total restricted assets	<u>\$ 57,782</u>

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

**James A. Garfield
Local School District**

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Report Letters

June 30, 2007

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT

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Rea & Associates, Inc.

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Focused on Your Future.

October 30, 2007

To the Board of Education
James A. Garfield Local School District
Portage County, Ohio
10235 SR 88
Garrettsville, Ohio 44231

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the James A. Garfield Local School District as of and for the year ended June 30, 2007, and have issued our report thereon dated October 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered James A. Garfield Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

James A. Garfield Local School District, Portage County, Ohio

Internal Control-Compliance Report

Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Hea & Associates, Inc.



October 30, 2007

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

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of the James A. Garfield Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. James A. Garfield Local School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the James A. Garfield Local School District's management. Our responsibility is to express an opinion on James A. Garfield Local School 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 Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about James A. Garfield Local School 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 James A. Garfield Local School District's compliance with those requirements.

In our opinion, James A. Garfield Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the James A. Garfield Local School 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 James A. Garfield Local School 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of James A. Garfield Local School Districts' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the James A. Garfield Local School District as of and for the year ended June 30, 2007, and have issued our report thereon dated October 30, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements of the James A. Garfield Local School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management 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.

Hea & Associates, Inc.

JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Expenditures
U. S. Department of Education (Passed Through Ohio Department of Education):					
Title I	84.010	C1-S1-2006	\$ 15,874	\$ 22,512	\$ 0
Title I	84.010	C1-S1-2007	102,977	101,298	0
Total Title I			<u>118,851</u>	<u>123,810</u>	<u>0</u>
<i>Special Education Cluster</i>					
IDEA-B	84.027	6B-SD-2006	2,547	2,300	0
IDEA-B	84.027	6B-SF-2006	50,929	49,635	0
IDEA-B	84.027	6B-SF-2007	269,932	269,656	0
Total IDEA-B			<u>323,408</u>	<u>321,591</u>	<u>0</u>
Preschool Grants	84.173	PG-S1-2006P	1,647	1,647	0
Preschool Grants	84.173	PG-S1-2007P	4,134	4,134	0
Total Preschool Grants			<u>5,781</u>	<u>5,781</u>	<u>0</u>
<i>Total Special Education Cluster</i>			<u>329,189</u>	<u>327,372</u>	<u>0</u>
Title IV-A Safe and Drug-Free Schools Total Safe and Drug-Free Schools and Communities	84.186	DR-S1-2007	<u>4,725</u>	<u>4,725</u>	<u>0</u>
Title V Total Title V	84.298	C2-S1-2007	<u>2,107</u>	<u>2,107</u>	<u>0</u>
Title II-D Total Title II-D	84.318	TJ-S1-2007	<u>1,165</u>	<u>1,165</u>	<u>0</u>
Title II-A Title II-A Total Title II-A	84.367	TR-S1-2006	9,813	12,858	0
	84.367	TR-S1-2007	<u>49,461</u>	<u>48,561</u>	<u>0</u>
			<u>59,274</u>	<u>61,419</u>	<u>0</u>
Total Department of Education			<u>515,311</u>	<u>520,598</u>	<u>0</u>
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
Food Distribution Program (A) (B)	10.550		40,738	0	40,738
<i>Nutrition Cluster:</i>					
School Breakfast Program (B)	10.553	05-PU-2006	7,197	7,197	0
School Breakfast Program (B)	10.553	05-PU-2007	18,275	18,275	0
National School Lunch Program (B)	10.555	LL-P4-2006	39,512	39,512	0
National School Lunch Program (B)	10.555	LL-P4-2007	100,166	100,166	0
Total Nutrition Cluster			<u>165,150</u>	<u>165,150</u>	<u>0</u>
Total Department of Agriculture			<u>205,888</u>	<u>165,150</u>	<u>40,738</u>
Total Federal Assistance			<u>\$ 721,199</u>	<u>\$ 685,748</u>	<u>\$ 40,738</u>

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

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

**JAMES A. GARFIELD LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.



Mary Taylor, CPA
Auditor of State

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
DECEMBER 6, 2007**