



**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY
REGULAR AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Ada Exempted Village School District
Hardin County
435 Grand Avenue
Ada, Ohio 45810

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ada Exempted Village School District, Hardin County, Ohio, as of June 30, 2005, and the respective changes in the modified cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the fiscal year ended June 30, 2005, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

November 29, 2005

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- General Receipts accounted for \$6,109,676, or 81% of all revenues.
- Total program expenses were \$6,966,291.
- In total, the District's net assets increased \$567,562 for fiscal year 2005.

Using this Annual Report

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

The *Statement of Net Assets* and the *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 non-major funds presented in total in one column. For fiscal year 2005, the K-12 Building & Auditorium Fund is by far the most significant fund.

Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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 fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question.

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 which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the District activities are presented as governmental activities. All of the District's programs and services are reported here including instruction, support services, food services, extracurricular activities, and capital outlay disbursements.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 19. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds include the general fund and the new K-12 Building & Auditorium Fund.

Governmental Funds - 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 a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 15 and 16. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The School District as a Whole

This year's financial statements were prepared on the modified cash basis utilizing the GASB Statement No. 34 format. The 2004 financial statements were prepared on the cash basis, but did not include the implementation of GASB 34. As a result, attempting to compare this year's data to last years would be misleading to the reader. The School District will provide this comparative analysis in subsequent years.

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

**(Table 1)
Net Assets – Modified Cash Basis**

	Governmental Activities
ASSETS	
Cash & cash equivalents	\$1,945,410
Investments	<u>7,589,048</u>
Total Assets	<u>9,534,458</u>
NET ASSETS	
Restricted:	
Capital Projects	8,116,799
Debt Service	195,793
Permanent Fund	
Nonexpendable	3,433
Expendable	3,328
Other Purposes	165,800
Unrestricted	<u>1,049,305</u>
Total Net Assets	<u>\$ 9,534,458</u>

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, receipt and disbursement comparisons to fiscal year 2004 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

**(Table 2)
Change in Net Assets**

	Governmental Activities
Receipts	
<i>Program Receipts</i>	
Charges for Services	\$ 555,806
Operating Grants, Contributions and Interest	747,704
Capital Grants, Contributions and Interest	132,019
<i>General Receipts</i>	
Property Taxes	2,057,167
Income Taxes	610,539
Grants and Entitlements not Restricted to Specific Programs	3,255,096
Gain on Sale of Capital Asset	3,173
Interest	141,841
Miscellaneous	<u>41,860</u>
Total Receipts	7,545,205
Disbursements	
<i>Program Disbursements</i>	
Instruction:	
Regular	2,896,421
Special	619,150
Vocational	86,910
Other	173,136
Support Services:	
Pupil	280,519
Instructional Staff	289,869
Board of Education	26,979
Administration	513,003
Fiscal	219,677
Operation and Maintenance of Plant	454,915
Pupil Transportation	275,393
Central	2,461
Food Services	316,681
Extracurricular	279,850
Capital Outlay	32,136
Repayment of Debt	<u>499,191</u>
Total Disbursements	<u>6,966,291</u>
Excess Before Transfers	578,914
Transfers	<u>(11,352)</u>
Increase in Net Assets	<u>\$ 567,562</u>

School foundation program is the largest source of funding for the School District. The Foundation program provided approximately \$3.4 million during 2005. Property tax levies generated \$2 million, while the income tax levy generated over \$600,000. With the combination of taxes and foundation funding over 85% of expenses in governmental activities, the District monitors both of these revenue sources very closely for fluctuations.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 entitlements. Comparisons to 2004 have not been made since 2004 Net Cost of Service data is not available.

**(Table 3)
Governmental Activities**

	2005	
	Total Cost of Service	Net Cost of Service
Instruction:		
Regular	\$2,896,421	\$2,562,581
Special	619,150	190,723
Vocational	86,910	60,207
Other	173,136	173,136
Support Services:		
Pupil	280,519	275,275
Instructional Staff	289,869	251,785
Board of Education	26,979	26,979
Administration	513,003	502,029
Fiscal	219,677	219,677
Operation and Maintenance of Plant	454,915	454,915
Pupil Transportation	275,393	256,530
Central	2,461	(464)
Food Services	316,681	11,637
Extracurricular	279,850	226,757
Capital Outlay	32,136	(120,115)
Repayment of Debt	499,191	439,110
Total Disbursements	6,966,291	\$ 5,530,762

Instruction and student support services comprise 62% of total governmental program expenses. Interest expense was approximately 4.6% of the total governmental expenses and was attributable to the outstanding bonds. Fiscal and administration charges were 10.5% of total governmental program expenses. Fiscal and administrative expenses include fees withheld from property tax receipts by the County Auditor(s) for administrative costs, other administrative services provided to the District, and other operational expenses of the Treasurer's office. Pupil transportation and the operation/maintenance of facilities accounts for approximately 10.5% of governmental program expenses.

The dependence upon tax revenues, property and income, for governmental activities is apparent.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the School District did modify its general fund appropriations. The School District uses budgeting systems that are designed to tightly control budgets but provide flexibility for management

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

For the General Fund, budget basis revenue was \$40,882 over the original budget estimates of \$5,928,897. Of this \$40,882 increase, most was attributable to an increase in property and income tax revenues.

Capital Assets and Debt Administration

Capital Assets

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks (see note 15). For fiscal year 2005, this amounted to \$123,054 for each set aside. The School District has qualifying disbursements or offsets for capital acquisition equaling \$192,996. For the textbooks, the School District disbursed \$76,608, with the excess expenditure balance scheduled to be carried forward into future fiscal years.

Debt

During 2002, the School District passed a bond issue providing \$7.85 million for the purpose of an Ohio School Facilities Commission (OSFC) project for a new K-12 building with an auditorium. The District will be funded by the OSFC at 73% for their portion of the project. At June 30, 2005, the School District's outstanding bond debt totals \$7,516,437. The District also has a 1986 EPA Asbestos Loan with a balance of \$4,763 at year end. This loan will be repaid during fiscal year 2006. See Note 10 for additional details.

Current Operating Issues

The Ada Exempted Village School District continues to receive support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy was passed by the residents of the district in May 2002, as a five year renewal of a .75% income tax.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 27% of revenues for governmental activities for the Ada Exempted Village School District in fiscal year 2005.

The School District has also been affected by income instability and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that every attempt is made not to seek additional operating levies from the voters in the near future. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

The Ada Exempted Village School District has not anticipated any meaningful growth in State revenue. The impact of the cost-of-doing-business factor reduction coupled with stable enrollment will have a negative impact on intergovernmental revenue over the next two years.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Current Building Issues

As part of the Ohio School Facilities Commission (OSFC) project for a new K-12 building with an auditorium, the School District must pass a ½ mill maintenance levy before receiving the State 73% portion of the project and starting the new building. This levy is effective for 23 years and will be placed on the ballot for the November 8, 2005 election, for School District voter approval.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's fiscal accountability. If you have any questions about this report or need additional financial information, contact Christy Beaschler, Treasurer of Ada Exempted Village School District, 435 Grand Avenue, Ada, OH 45810 or beaschlc@ada.k12.oh.us.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$1,945,410
Investments	<u>7,589,048</u>
Total Assets	<u><u>9,534,458</u></u>
Net Assets	
Restricted for:	
Capital Projects	8,116,799
Debt Service	195,793
Permanent Fund	
Nonexpendable	3,433
Expendable	3,328
Other Purposes	165,800
Unrestricted	<u>1,049,305</u>
Total Net Assets	<u><u>\$9,534,458</u></u>

See Accompanying Notes to the Basic Financial Statements.

**ADA EXEMPTED VILLAGE SCHOOLS
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Cash Receipts				Net Cash (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$2,896,421	\$263,935	\$69,905		(\$2,562,581)
Special	619,150	21,143	407,284		(190,723)
Vocational Education	86,910	2,286	24,417		(60,207)
Other	173,136				(173,136)
Support Services:					
Pupil	280,519		5,244		(275,275)
Instructional Staff	289,869		38,084		(251,785)
Board of Education	26,979				(26,979)
Administration	513,003		10,974		(502,029)
Fiscal	219,677				(219,677)
Operation and Maintenance of Plant	454,915				(454,915)
Pupil Transportation	275,393		18,863		(256,530)
Central	2,461		2,925		464
Food Services	316,681	215,349	89,695		(11,637)
Extracurricular Activities	279,850	53,093			(226,757)
Capital Outlay	32,136		20,232	132,019	120,115
Repayment of Debt	499,191		60,081		(439,110)
Total Governmental Activities	\$6,966,291	\$555,806	\$747,704	\$132,019	(5,530,762)
 General Receipts					
Property Taxes Levied for:					
					1,428,594
					144,844
					483,729
					610,539
					3,255,096
					3,173
					141,841
					41,860
					6,109,676
					<i>Total General Receipts</i>
 Transfers					
					(11,352)
					<i>Total General Receipts and Transfers</i>
					6,098,324
 Change in Net Assets					
					567,562
 <i>Net Assets Beginning of Year</i>					
					8,966,896
 <i>Net Assets End of Year</i>					
					\$9,534,458

See Accompanying Notes to the Basic Financial Statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General Fund	Auditorium & K-12 Building Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$1,049,305	\$49,300	\$846,805	\$1,945,410
Investments		7,589,048		7,589,048
Total Cash Assets	1,049,305	7,638,348	846,805	9,534,458
Cash Fund Balances				
Reserved for Encumbrances	31,379	276,621	45,377	353,377
Unreserved:				
Undesignated, Reported in:				
General Fund	1,017,926			1,017,926
Special Revenue Funds			161,595	161,595
Debt Service Funds			195,793	195,793
Capital Projects Funds		7,361,727	437,279	7,799,006
Permanent Funds			6,761	6,761
Total Cash Fund Balances	\$1,049,305	\$7,638,348	\$846,805	\$9,534,458

See Accompanying Notes to the Basic Financial Statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund	Auditorium & K-12 Building Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts				
Property Taxes	\$1,428,595		\$628,572	\$2,057,167
Income Taxes	610,539			610,539
Intergovernmental	3,619,993		514,767	4,134,760
Interest	3,969	132,019	5,853	141,841
Tuition and Fees	287,364		25,440	312,804
Food Services			189,909	189,909
Extracurricular Activities			53,093	53,093
Miscellaneous	19,319		22,541	41,860
Total Cash Receipts	5,969,779	132,019	1,440,175	7,541,973
Cash Disbursements				
Current:				
Instruction				
Regular	2,824,038		72,383	2,896,421
Special	399,601		219,549	619,150
Vocational Education	86,910			86,910
Other	173,136			173,136
Support Services				
Pupil	273,750		6,769	280,519
Instructional Staff	251,824		38,045	289,869
Board of Education	26,979			26,979
Administration	501,379		11,624	513,003
Fiscal	201,790		17,887	219,677
Operation and Maintenance of Plant	416,002		38,913	454,915
Pupil Transportation	275,393			275,393
Central			2,461	2,461
Food Services			316,681	316,681
Extracurricular Activities	203,087		76,763	279,850
Facilities Acquisition and Construction	14,044		18,092	32,136
Debt Service				
Repayment of Principal			179,529	179,529
Interest			319,662	319,662
Total Cash Disbursements	5,647,933		1,318,358	6,966,291
Excess of Cash Receipts Over Cash Disbursements	321,846	132,019	121,817	575,682
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	3,173			3,173
Other Financing Sources	9		50	59
Transfers-In			127,573	127,573
Transfers-Out	(138,925)			(138,925)
Total Other Financing Sources (Uses)	(135,743)		127,623	(8,120)
Net Change in Fund Balances	186,103	132,019	249,440	567,562
Cash Fund Balances - Beginning of Year	863,202	7,506,329	597,365	8,966,896
Cash Fund Balances - End of Year	\$1,049,305	\$7,638,348	\$846,805	\$9,534,458
Encumbrances	\$31,379	\$276,621	\$45,377	\$353,377

See Accompanying Notes to the Basic Financial Statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Cash Receipts				
Taxes	\$1,399,528	\$1,399,528	\$1,428,595	\$29,067
Income Taxes	582,499	582,499	610,539	28,040
Intergovernmental	3,640,498	3,640,498	3,619,993	(20,505)
Interest	6,000	6,000	3,969	(2,031)
Tuition and Fees	281,372	281,372	287,364	5,992
Miscellaneous	19,000	19,000	19,319	319
Total Cash Receipts	<u>5,928,897</u>	<u>5,928,897</u>	<u>5,969,779</u>	<u>40,882</u>
Cash Disbursements				
Current:				
Instruction:				
Regular	2,987,014	2,944,331	2,827,811	116,520
Special	359,119	448,012	409,956	38,056
Vocational Education	89,862	91,137	87,550	3,587
Other	167,000	177,000	173,136	3,864
Support Services:				
Pupil	289,012	289,012	274,136	14,876
Instructional Staff	256,165	260,212	253,568	6,644
Board of Education	29,836	29,836	26,979	2,857
Administration	532,583	535,083	509,290	25,793
Fiscal	212,014	215,014	202,856	12,158
Operation and Maintenance of Plant	438,464	441,464	421,505	19,959
Pupil Transportation	301,307	304,307	275,393	28,914
Extracurricular Activities	225,593	225,593	203,087	22,506
Capital Outlay	12,500	14,053	14,044	9
Total Cash Disbursements	<u>5,900,469</u>	<u>5,975,054</u>	<u>5,679,311</u>	<u>295,743</u>
Excess of Receipts Over (Under) Disbursements	<u>28,428</u>	<u>(46,157)</u>	<u>290,468</u>	<u>336,625</u>
Other Financing Sources (Uses)				
Proceeds from Disposition of Fixed Assets			3,173	3,173
Refund of Prior Year Expenditures			9	9
Transfers-Out	(37,881)	(149,851)	(138,925)	10,926
Total Other Financing Sources (Uses)	<u>(37,881)</u>	<u>(149,851)</u>	<u>(135,743)</u>	<u>14,108</u>
Net Change in Fund Balances	(9,453)	(196,008)	154,725	350,733
Fund Balances - Beginning of Year	<u>863,202</u>	<u>863,202</u>	<u>863,202</u>	<u>0</u>
Fund Balances - End of Year	<u>\$853,749</u>	<u>\$667,194</u>	<u>\$1,017,927</u>	<u>\$350,733</u>

See Accompanying Notes to the Basic Financial Statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
June 30, 2005**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity Pooled in Cash and Cash Equivalents	<u>\$58,789</u>	<u>\$25,861</u>
Net Assets		
Unrestricted	<u>\$58,789</u>	<u>\$25,861</u>

See Accompanying Notes to the Basic Financial Statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private Purpose Trust</u>
Additions	
Investment Income	\$887
Miscellaneous	<u>388</u>
Total Additions	1,275
Deductions	
Purchased Services	2,300
Other Objects	<u>1,250</u>
Total Deductions	<u>3,550</u>
Change in Net Assets	(2,275)
Net Cash Assets - Beginning of Year	<u>61,064</u>
Net Cash Assets - End of Year	<u><u>\$58,789</u></u>

See Accompanying Notes to the Basic Financial Statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1862 through the consolidation of existing land areas and districts. The District serves an area of approximately 42 square miles. It is located in Hardin and Hancock Counties, including all of the Village of Ada, Ohio, and portions of Liberty and Orange Townships. The District is the 535th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 26 non-certified employees, 62 certificated teaching personnel and 4 administrative employees to provide services to 871 students and other community members. The District currently operates three instructional buildings, one administrative building, and one garage.

A. Reporting Entity:

The reporting entity is composed of the primary government, component units and other organizations that are included to insure that the 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, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support, to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. There are no component units of the District.

The District is associated with six organizations of which three are defined as jointly governed organizations, one a related organization, and two insurance purchasing pools. These organizations include the West Central Ohio Special Education Regional Resource Center (SERRC), Northwest Ohio Area Computer Services Cooperative, Apollo Joint Vocational School, Ada Public Library, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan. These organizations are presented in Notes 12, 13, and 14 to the general purpose financial statements.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (ie., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

1. Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the District as a whole. The statements include all funds of the School District except for fiduciary funds.

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

2. Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of the governmental financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements of the District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into the governmental major category: An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined. The District has no enterprise funds.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's major governmental funds:

General Fund	The General Fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
K-12 Bldg. & Auditorium Fund	This fund accounts for the specific receipts to be used for the new auditorium and K-12 building projects.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The District's fiduciary funds include private purpose trust funds and agency funds. The District's private purpose trust funds account for scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds include various student-managed activities.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, function, and object level of expenditures. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

With the passage of House Bill #129 (spring 2001), a county budget commission may waive the submission of a subdivision's annual tax budget. On August 6, 2002, the Hardin County Budget Commission adopted a resolution waiving the requirement for the adoption of a tax budget for fiscal year 2004 and all future fiscal years for all school districts within Hardin County. In lieu of a full tax budget, the Commission will require the school districts to submit a copy of the five-year forecast annually by October 31st. This waiver of the tax budget does not change any other financial reporting requirements.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. 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 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, 2005.

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity 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, which are not part of the investment pool, are reported as investments.

E. Property, Plant and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting used by the District.

G. Long-Term Debt

Under Ohio law, a debt service fund must be created and used for the payment of tax and revenue anticipation notes. Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

H. Intergovernmental Revenues

Unrestricted intergovernmental entitlements are recorded as revenue when the entitlement is received. Federal and State reimbursement type grants are recorded as revenue when the grant is received.

I. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expense in the reimbursed fund.

J. Equity Classifications

Government-wide Statements

Equity is classified as net assets, and displayed in separate components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance.

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

K. Receipts and Disbursements

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the District's taxpayers are reported as program receipts. The District has the following program receipts: charges for services; operating grants, contributions, and interest; and capital grants, contributions, and interest.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the District has implement Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the District's financial statements.

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 withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or 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 the 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase 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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year end, the carrying amount of the District's deposits was \$1,541,755 and the bank balance was \$1,584,091. Of the bank balance, \$311,429 was covered by federal depository insurance and \$1,272,662 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at the cash purchase price (cost) value. As of June 30, 2005, the District had the following investments:

	<u>Cost</u>	Investment Maturities (in months)	
		<u>0 – 6</u>	<u>6-12</u>
Seasongood Asset account			\$
Federal Home Loan Banks	\$ 1,400,000	\$ 700,000	700,000
Federal National Mortgage Association	700,000	700,000	0
Federal Home Loan Bank STEP	700,000	0	700,000
Federal National Mortgage Association Discount Notes	773,536	773,536	0
Federal Home Loan Mortgage Corporation Discount Notes	4,305,106	2,191,006	2,114,100
Money Market Fund (cash and cash equivalents)	49,300	49,300	0
Total Seasongood Asset account	<u>7,927,942</u>	<u>4,413,842</u>	<u>3,364,689</u>
STAR Ohio	<u>149,411</u>	<u>149,411</u>	<u>0</u>
			\$
Total Fair Value	<u>\$ 8,077,353</u>	<u>\$ 4,563,253</u>	<u>3,514,100</u>

The total investment in Seasongood Assets of \$7,927,942 exceeds the \$7,638,348 fund balance of the Auditorium and K-12 Building Funds due to payments being made out of the Auditorium and K-12 Building Funds on the accounting records which were paid out of the general checking account and the corresponding investments were not liquidated and used to reimburse the district checking account. Therefore a total of \$289,594 of the investments in the Seasongood asset account belongs to other district funds.

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the District.

Credit Risk: The District's investments at June 30, 2005 in FHLB, FNMA, FHLB Step and FHLMC are rated AAA by Standard & Poor's. Investments in the Money Market Fund and STAR Ohio are rated AAAM by Standard & Poor's.

Concentration of Credit Risk: The District places no limit on the amount the district may invest in any one issuer. More than 5 percent of the District's investments are in FHLB, FNMA, FHLB Step, FNMA Discount Notes and FHLMC Discount Notes. These investments are 17.2%, 8.6%, 8.7%, 9.6% and 53.5%, respectively, of the District's total investments for the amounts listed above.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District operates on a fiscal year 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 year.

Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior fiscal year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

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

The Counties' Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005 are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$63,064,540	89.44%	\$64,410,190	90.00%
Public Utility Personal Property	3,278,370	4.65	3,318,340	4.64
Tangible Personal Property	4,164,432	5.91	3,838,410	5.36
Total Assessed Value	<u>\$70,507,342</u>	<u>100.00%</u>	<u>\$71,566,940</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$47.20		\$47.20	

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. INCOME TAX

The District levies a voted tax of .75% for general operations on the income of residents and of estates. The tax was effective on January 1, 2003, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. INTERFUND TRANSFERS

During fiscal year 2005, the General Fund transferred \$118,045 to the Permanent Improvement Fund for textbooks, \$9,529 to the Debt Service Fund for debt repayment, and \$11,351 to the Agency Funds as follows: \$7,851 to the Yearbook Fund and \$3,500 to the Vocal Music Fund. All transfers were made to subsidize general operations of the fund.

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the District contracted with Marsh USA, Inc. for fleet, liability insurance and property and inland marine coverage.

Coverages provided are as follows:

Building and Contents - replacement cost	(\$1,000 deductible)	\$17,551,105
Inland Marine Coverage:	(\$1,000 deductible)	
Electronic Data Processing		Actual cash value
Musical Instruments Coverage		Actual cash value
Boiler and Machinery – included in Building above		-included above
Automobile Liability		2,000,000
Uninsured Motorists		1,000,000
General Liability		
Per occurrence		2,000,000
Total per year		4,000,000
Umbrella		1,000,000

Public officials' bond insurance is provided by the Travelers Casualty and Surety Company of America.

Settled claims have not exceeded this commercial coverage in any of the past three years.

For fiscal year 2005, the District participated in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool (Note 13).

The Plan is intended 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 school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. RISK MANAGEMENT (Continued)

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

The District participates in the Hardin County Schools Health Benefit Fund and Trust (the "Plan"), a public entity shared risk pool consisting of six local school districts and the Hardin County Educational Service Center. The District pays monthly premiums to the Plan for employee medical, dental, life insurance and vision benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (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 43215-3476 or by calling (614) 222-5853.

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 school district rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 a statutory maximum amount, by the SERS' Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$76,206, \$65,701 and \$64,010 respectively; 100% percent of the payments due within fiscal years 2005, 2004 and 2003 have been contributed.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, 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. For fiscal year 2005 and 2004, the portion used to fund pension obligations was 13 percent for both years. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$394,720, \$403,255, and \$396,619 respectively; 100% percent of the payments due within fiscal years 2005, 2004 and 2003 have been contributed. Contributions to the DC Plan for fiscal year 2005 were \$1,997 made by the District and \$1,902 made by plan members. The District had \$3,826 contributions under the Combined Plan.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, all five members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

10. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$30,363.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. This portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. 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 2005, the minimum pay was established at \$27,400. For the District, the amount to fund health care benefits, including the surcharge, was \$35,847, for fiscal year 2005.

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, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2005 were as follows:

	<u>Interest Rate</u>	<u>Principal Outstanding 6/30/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/2005</u>
<u>Long-Term Obligations:</u>					
1988 EPA Asbestos Loan:	0.00%	\$ 14,292	\$ 0	\$ 9,529	\$ 4,763
2002 School Facilities and Improvement Bonds:	Various	7,165,000	0	170,000	6,995,000
Capital Appreciation Bonds	9.40%	<u>521,437</u>	<u>0</u>	<u>0</u>	<u>521,437</u>
Total Long-Term Debt		<u>\$ 7,700,729</u>	<u>\$ 0</u>	<u>\$ 179,529</u>	<u>\$ 7,521,200</u>

School Facilities and Improvement Bonds: In June 2002, the District issued \$7,846,437 in general obligation bonds for the purpose of constructing a K-12 school building and an auditorium facility. At that time, the District participated in the Expedited Local Partnership Program (ELPP) of the Ohio School Facility Commission (OSFC), under which the State will fund a percentage of the District's future facilities needs. On March 16, 2005, Governor Taft announced the next 15 school districts that have been identified for funding under the Classroom Facilities Assistance Program (CFAP). The District is on the list for fiscal year 2006 appropriations. The District is working with the OSFC to finalize the scope of the work and the overall cost of the project in order to move from an ELPP district to a CFAP district.

The bond issue consists of \$6,125,000 in serial bonds, \$1,200,000 in term bonds and \$521,437 in capital appreciation bonds. The serial bonds have interest rates from 2% to 5% and yield rates from 2% to 5.02%, maturing each fiscal year beginning in 2003 through 2012 and in 2017 through 2023. The term bonds have a 5% interest rate with final maturity on December 1, 2023 (fiscal year 2024) and December 1, 2024 (fiscal year 2025). The capital appreciation bonds have a stated interest rate of 9.4% (or the rate that, when applied to the original principal amount, compounded semi-annually results in the maturity amount) for an approximate yield to maturity of 4.7% to 4.95%. The bonds were issued for a twenty year period with final maturity at December 1, 2024. The bonds will be retired from the debt service fund.

The current interest serial bonds will bear interest, payable on June 1 and December 1 of each year, beginning December 1, 2002 until maturity or earlier redemption.

The capital appreciation bonds will bear interest, compounded semi-annually on June 1 and December 1 (the "Interest Accretion Dates"), from the date of their issuance, but the interest will be payable only at maturity. The capital appreciation bonds will mature in fiscal years 2013 through 2016. The maturity amount of the bonds is \$1,565,000.

The term bonds maturity on December 1, 2023 and December 1, 2024 are subject to mandatory sinking fund redemption prior to stated maturity.

EPA Asbestos Loan: On July 28, 1986, Ada Exempted Village School District obtained a loan in the amount of \$171,513 for the purpose of providing asbestos removal for the Ada Exempted Village School District, under the authority of Ohio Revised Code section 3317.22. The loan was issued for a twenty fiscal year period with final maturity during fiscal year 2006. The loan is retired through the debt service fund.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

The District's total voted legal debt margin was \$6,441,025 with an unvoted debt margin of \$71,567 at June 30, 2005. The District was approved as a special needs District by the Ohio Department of Education pursuant to Ohio Revised Code Section 133.06(E) based upon a future projected tax valuation of 118,797,131 and a total indebtedness (based upon the projected valuation) of approximately 6.5%. The District exceeded the legal voted debt limitation by approximately \$879,619 during fiscal year 2005.

Pursuant to Ohio Revised Code 133.06, the Ohio Department of Education consented to allow the District to submit to the voters the question of issuing bonds in the amount of \$2,200,000 for constructing, furnishing, and equipping an auditorium facility. The popular vote approved the \$2,200,000 bond issue for the auditorium facility which resulted in the District exceeding the debt limitation.

Principal and interest requirements to retire general obligation debt, including the loan, outstanding at June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 184,764	\$ 315,100	\$ 499,864
2007	210,000	309,332	519,332
2008	225,000	302,361	527,361
2009	245,000	294,183	539,183
2010	280,000	284,453	564,453
2011-2015	1,023,085	2,036,940	3,060,025
2016-2020	2,133,352	1,394,535	3,527,887
2021-2025	<u>3,220,000</u>	<u>386,269</u>	<u>3,606,269</u>
Total	<u>\$7,521,201</u>	<u>\$5,323,173</u>	<u>\$12,844,374</u>

12. JOINTLY GOVERNED ORGANIZATIONS

West Central Ohio Special Education Regional Resource Center - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board.

Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 W. Lima St., Suite A, Kenton, Ohio 43326-2385.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (continued)

Northwest Ohio Area Computer Services Cooperative - The District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC). NOACSC is an association of public school districts in within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the City of Wapakoneta, and to any area established in future law, by the Ohio Department of Education. The cooperative was formed for the purpose of developing and implementing a computer system to improve administrative and instructional functions for the member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent.

Financial information can be obtained from Mr. Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

Apollo Joint Vocational School - The Apollo Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the eleven participating school districts' elected boards, which possesses its own budgeting and taxing authority.

To obtain financial information write to the Apollo Joint Vocational School, Greg Bukowski, who serves as Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

13. RELATED ORGANIZATION

Ada Public Library - The Ada Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Ada School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees.

Financial information can be obtained from the Ada Library, Janet E. Klingler, Clerk/Treasurer, at 320 North Main, Ada, Ohio 45810.

14. INSURANCE PURCHASING POOLS

Hardin County School Employees' Health and Welfare Benefit and Trust - The Hardin County Schools Health Benefit Fund and Trust (the Trust) is a public entity shared risk pool consisting of six school districts and the Hardin County Educational Service Center.

The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. INSURANCE PURCHASING POOLS (Continued)

Each school district decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as director, at P.O. Box 98, Dola, Ohio 45835.

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

15. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

16. SET ASIDE DISCLOSURE

As stated in House Bill 412, revised in Senate Bill 345, school districts are required to maintain two reserves; one for capital acquisition and maintenance, and one for textbooks and other instructional materials. A reserve represents resources whose use is limited because of contractual or statutory restrictions.

The following demonstrates the District's compliance with set-aside requirement in Senate Bill 345:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set aside cash balance as of June 30, 2004	(\$106,269)	(\$314,204)
Current year set-aside requirement	123,054	123,054
Current year Offsets	0	(165,167)
Qualifying Disbursements	<u>(76,608)</u>	<u>(27,829)</u>
Set Aside Balance Carried		
Forward to Future Fiscal Years	<u>(\$59,823)</u>	<u>(\$384,146)</u>

The District had qualifying expenditures during the fiscal year, along with a negative carry-over from the prior year that reduced the textbooks and capital improvements set-aside below zero at June 30, 2005. These amounts may be used to reduce the set-aside requirement in future years.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

16. SET ASIDE DISCLOSURE (Continued)

In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2005, only the unspent portion of workers' compensation refunds continues to be set aside at fiscal year end. This \$25,175 balance must be spent according to S.B. 345.

17. CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

18. SIGNIFICANT CONTRACTS

At June 30, 2005 the District has a significant outstanding contract with Steed-Hammond-Paul for architect services related to the new K-12 school building and auditorium project. The original contract was for \$539,000 and \$272,980 has been paid leaving a contract balance of \$266,020.

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**Auditor of State
Betty Montgomery**

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

Ada Exempted Village School District
Hardin County
435 Grand Avenue
Ada, Ohio 45810

To the Board of Education:

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Ada Exempted Village School District (the "District") as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 29, 2005, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is material weakness

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated November 29, 2005, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

November 29, 2005

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared its FY 05 financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the District should prepare their financial statements according to generally accepted accounting principles.

FINDING NUMBER 2005-002

Reportable Condition

Resolving Variances between Expected and Actual Activity Revenue

The District had a system in place to review activity projects and compare the estimated or expected income with the amounts actually collected and deposited with the District. For the Purple and Gold card fund raiser, each student was issued ten Purple and Gold cards to be sold at \$5 each. The District identified that five students did not turn in either the unsold tickets or the money from sale of the Purple and Gold cards which resulted in a \$250 shortage in revenue. In addition, the District prepared a spreadsheet to determine the estimated income from sales in the concession stand by multiplying the items purchased by the sales price, reduced for spoilage and items discarded or given away. The total estimated income was compared to the actual income and a \$907 shortage was identified. Although, the District identified these two instances where actual revenue was less than estimated or expected, the Audit Committee and/or Board of Education were not notified of the shortage. As a result, no actions were initially taken to recover or resolve the shortage in revenue. The District has now collected the revenue and/or unsold tickets from the Purple and Gold card fund raiser. The District has revised it's method of estimating popcorn sales and as a result the variance in concession revenue is now \$287.

Failure to resolve shortages of estimated or expected revenue could result in findings for recovery being issued against District personnel.

The District should adopt a policy and/or procedures for reporting unexplained revenue shortages to the Audit Committee and/or Board of Education. Included in the policy and/or procedures should be the steps and/or required documentation to resolve unexplained revenue shortages.

**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2004-001	ORC Sec. 117.28 & OAC Sec. 117-02-03 (B) - The District did not report on the GAAP basis of accounting	No	Repeated as Finding 2005-001



**Auditor of State
Betty Montgomery**

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**ADA EXEMPTED VILLAGE SCHOOL DISTRICT
HARDIN 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 30, 2005**