



Mary Taylor, CPA
Auditor of State

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Jefferson Area Local School District
Ashtabula County
45 East Satin Street
Jefferson, Ohio 44047

To the Board of Education:

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

Except as described in the following two paragraphs, 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.

Management has not retained the athletic fund documents needed to complete the audit of revenue collected for athletic events. Athletic revenues represent 6% of the Charges for Services and Sales amount reflected on the Statement of Activities and 56% of the line item extracurricular activities on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Also, the Ohio Revised Code requires the District to set-aside certain general fund revenue amounts into various reserves. The reserves are calculated and presented on a cash basis, and Note 16 of the report has the statutory reserves reflected. However, the District was not able to provide any documentation on the amounts for qualifying disbursements for the Textbook Reserve, \$131,584 or the Capital Maintenance Reserve, \$237,384. We therefore cannot reasonably determine whether the amounts of these qualifying disbursements are fairly stated in the notes to the financial statements.

In our opinion, except for the effects of such adjustments or disclosures, if any, as might have been necessary had we been able to examine certain information regarding source documents for athletic events reported in the remaining fund information, and adequate support for the qualifying disbursements for the two reserve accounts for the note disclosure, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the remaining fund information of the Jefferson Area Local School District, Ashtabula County, Ohio, as of June 30, 2005, and the changes in financial position thereof and the respective budgetary comparison for the General Fund and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 17, the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers", and GASB Statement No.45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits and Other Than Pensions."

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

April 10, 2008

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- Net assets of governmental activities increased \$70,311, representing a 1 percent increase from 2004.
- General revenues accounted for \$15,065,867 in revenue or 91 percent of total revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$1,437,391 or 9 percent of total revenues of \$16,503,258.
- The School District had \$16,432,947 in expenses related to governmental activities; only \$1,437,391 of these expenses was offset by program specific charges for services, grants, contributions and interest. General revenues of \$15,065,867 were adequate to provide for these programs.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Jefferson Area Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities. The statement of net assets and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

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

The School District as a Whole

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

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

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u> (Restated)
Assets		
Current and other assets	\$ 10,147,317	\$ 8,662,073
Capital assets, net of depreciation	<u>4,605,101</u>	<u>4,848,479</u>
Total assets	<u>14,752,418</u>	<u>13,510,552</u>
Liabilities		
Current and other liabilities	6,233,687	5,078,626
Long-term liabilities	<u>1,657,540</u>	<u>1,641,046</u>
Total liabilities	<u>7,891,227</u>	<u>6,719,672</u>
Net Assets		
Invested in capital assets, net of related debt	4,206,905	4,404,077
Restricted	665,944	792,186
Unrestricted	<u>1,988,342</u>	<u>1,594,617</u>
Total net assets	<u>\$ 6,861,191</u>	<u>\$ 6,790,880</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the School District's assets exceeded liabilities by \$6,861,191, an increase of \$70,311 from net assets at June 30, 2004. Current and other assets increased by \$1,485,244 while capital assets, net of depreciation decreased by \$243,378. The change in the School District's assets is primarily related to the property tax and the threshold change of capital assets. The increase in net assets is a favorable indication of the School District's financial condition.

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

A portion of the School District's net assets, \$665,944 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$514,418 is restricted for capital projects; \$1,145 is restricted for scholarships and \$150,381 is restricted for other purposes. Unrestricted net assets reported a balance of \$1,988,342 which is used to meet the government's ongoing obligations to students and staff.

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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Table 2 reflects the changes in net assets for fiscal year 2005 compared to 2004:

Table 2
Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 731,311	\$ 732,492
Operating grants, contributions and interest	679,957	736,801
Capital grants and contributions	26,123	3,000
General revenues		
Property taxes	5,802,596	5,639,176
Grants and entitlements	8,968,344	9,090,339
Investment earnings	66,581	33,475
Miscellaneous	228,346	192,542
Total revenues	<u>16,503,258</u>	<u>16,427,825</u>
Program Expenses		
Instruction		
Regular	\$ 7,824,549	\$ 6,401,996
Special	1,247,837	1,102,964
Vocational	183,662	152,130
Support services		
Pupils	1,369,010	1,196,812
Instructional staff	165,281	192,269
Board of education	12,301	44,454
Administration	1,037,013	924,490
Fiscal	571,149	1,737,484
Business	14,015	13,398
Operation and maintenance of plant	1,832,316	1,724,150
Pupil transportation	1,021,444	1,010,556
Central	156,016	111,183
Operation of non-instructional services	602,755	804,004
Extracurricular activities	375,900	380,327
Interest and fiscal charges	19,699	23,309
Loss on disposal of capital assets	-	26,468
Total expenses	<u>16,432,947</u>	<u>15,845,994</u>
Increase (decrease) in net assets	<u>\$ 70,311</u>	<u>\$ 581,831</u>

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Governmental Activities

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$5.8 million in 2005, representing an increase of \$163,420 over 2004. The increase in property taxes collections was anticipated due the increased valuations of real property within the School District. General revenues from grants and entitlements, such as the school foundation program, generated over \$8.9 million. With the combination of taxes and intergovernmental funding comprising approximately 89% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Instructional expenses of the School District include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil and the purchase of textbooks and instructional supplies and materials. These expenses totaled \$9,256,048, or 56% of the total program expenses of the School District.

Support services expenses for the pupils and instruction staff programs totaled \$1,534,291 in the current year, or 9% of the total program expenses of the School District. These expenses include library, guidance, speech and hearing, and psychological services. The increase in expenses over prior year in the amount of \$145,210 is attributed mainly to increases in the level of services provided.

Administration expenses of the School District include services of the Superintendent, and Principals' offices as well as public relations activities. Current year administrative expenses were \$1,037,013, which represents over 6% of the total program expenses. Expenses of this School District program increased \$112,523 over the prior year.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District's buildings, grounds and equipment. Current year expenses of \$1,832,316 made up about 12% of all governmental expenses.

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

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 3
Governmental Activities

	<u>Total Cost of Services</u> <u>2005</u>	<u>Total Cost of Services</u> <u>2004</u>	<u>Net Cost of Services</u> <u>2005</u>	<u>Net Cost of Services</u> <u>2004</u>
Program Expenses				
Instruction:				
Regular	\$ 7,824,549	\$ 6,401,966	\$ (7,440,344)	\$ (6,115,874)
Special	1,247,837	1,102,964	(980,210)	(859,089)
Vocational	183,662	152,130	(183,662)	(152,130)
Support services:				
Pupils	1,369,010	1,196,812	(1,357,607)	(1,191,761)
Instructional staff	165,281	192,269	(142,853)	(136,154)
Board of education	12,301	44,454	(12,301)	16,407
Administration	1,037,013	924,490	(1,028,250)	(913,953)
Fiscal	571,149	1,737,484	(571,149)	(1,737,484)
Business	14,015	13,398	(14,015)	(13,398)
Operation and maintenance of plant	1,832,316	1,724,150	(1,831,715)	(1,724,150)
Pupil transportation	1,021,444	1,010,556	(995,321)	(1,010,459)
Central	156,016	111,183	(147,016)	(102,183)
Operation non-instructional services	602,755	804,004	46,313	(58,206)
Extracurricular activities	375,900	380,327	(317,727)	(325,460)
Interest and fiscal charges	19,699	23,309	(19,699)	(23,309)
Loss on disposal of capital assets	-	26,468	-	(26,468)
Total expenses	<u>\$ 16,432,947</u>	<u>\$ 15,845,964</u>	<u>\$ (14,995,556)</u>	<u>\$ (14,373,671)</u>

The School District depends on both property taxes and State funding which fund approximately 90% of the program expenses of the School District.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$16,404,410, and total expenditures were \$16,173,235. The general fund is reporting a positive fund balance this year and the fund balance increased by \$217,541. This increased fund balance was not due to any one specific item.

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

General Fund Budgeting Highlights

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

During fiscal year 2005, the School District amended its appropriation budget several times, however none were significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$14,711,500, which had no change from the original budget estimate.

The general fund's original expenditures estimate of \$16,365,412 was increased slightly during the fiscal year. However, no significant expenditure budget revisions were posted to any specific account during the year. Actual expenditures and other financing uses total \$14,888,248, or \$1,738,801 lower than the final amount budgeted. The final budgeted amount represents an amount equal to the amount of available resources that may be expended.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$4,605,101 invested in land and improvements, buildings, furniture and equipment and vehicles. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004:

Table 4
Capital Assets at June 30, 2005
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>Restated 2004</u>
Land	\$ 540,800	\$ 540,800
Land improvements	289,534	308,209
Buildings	2,542,017	2,746,150
Furniture, equipment and fixtures	602,526	642,983
Vehicles	<u>630,224</u>	<u>610,337</u>
Total capital assets	<u>\$ 4,605,101</u>	<u>\$ 4,848,479</u>

Major capital assets events during the current fiscal year included the following:

- The District acquired two buses for \$124,988.
- Purchased \$20,176 in various other equipment.

See Note 7 to the basic financial statements for detail on the School District's capital assets.

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Debt

At June 30, 2005 the School District had \$398,196 in notes outstanding with \$51,276 due within one year. Table 5 summarizes the bonds, loans and capital leases outstanding as of the end of the fiscal year as compared to 2004:

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
1991 Asbestos Removal Note	\$ 28,196	\$ 39,472
1998 Energy Conservation Note	<u>370,000</u>	<u>405,000</u>
Total outstanding debt	<u>\$ 398,196</u>	<u>\$ 444,472</u>

The District retired \$46,276 of note debts in fiscal year 2005. Additional information on the District's short-term debt and long-term debt can be found in Note 9 of the basic financial statements.

Current Issues Affecting Financial Condition

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

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

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

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future. The District also faces the challenge of developing an overall facilities plan that will address the future of our two aging elementary buildings. Rock Creek and Jefferson Elementary both were put in use initially well over one hundred years ago. Any building program pursued will require a local funding component.

Jefferson Area Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ed Williams, Treasurer at Jefferson Area Local School District, 45 E. Satin Street, Jefferson, Ohio 44047-1416

Jefferson Area Local School District

Statement of Net Assets

June 30, 2005

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 2,553,229
Receivables:	
Taxes	7,139,973
Accounts	9,203
Intergovernmental	44,832
Prepaid items	197,873
Inventory held for resale	9,055
Materials and supplies inventory	36,444
Restricted assets:	
Equity in pooled cash and cash equivalents (restricted)	156,708
Capital assets:	
Land and construction in progress	540,800
Depreciable capital assets, net	4,064,301
Total assets	<u>14,752,418</u>
<u>Liabilities:</u>	
Accounts payable	32,445
Accrued wages	1,255,176
Compensated absences payable	160,593
Intergovernmental payable	97,488
Pension obligations payable	364,994
Accrued interest payable	1,495
Deferred revenue	4,321,496
Long-term liabilities:	
Due within one year	125,247
Due in more than one year	1,532,293
Total liabilities	<u>7,891,227</u>
<u>Net assets:</u>	
Invested in capital assets, net of related debt	4,206,905
Restricted for:	
Capital projects	514,418
Permanent fund purpose - scholarships	
Nonexpendable	1,145
Other purposes	150,381
Unrestricted	1,988,342
Total net assets	<u>\$ 6,861,191</u>

See accompanying notes to the basic financial statements.

Jefferson Area Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues				Net (Expense)
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Revenues and Changes in Net Assets
					Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 7,824,549	\$ 287,294	\$ 96,911	\$ -	\$ (7,440,344)
Special	1,247,837	-	267,627	-	(980,210)
Vocational	183,662	-	-	-	(183,662)
Support services:					
Pupils	1,369,010	-	11,403	-	(1,357,607)
Instructional staff	165,281	-	22,428	-	(142,853)
Board of education	12,301	-	-	-	(12,301)
Administration	1,037,013	-	8,763	-	(1,028,250)
Fiscal	571,149	-	-	-	(571,149)
Business	14,015	-	-	-	(14,015)
Operation and maintenance of plant	1,832,316	601	-	-	(1,831,715)
Pupil transportation	1,021,444	-	-	26,123	(995,321)
Central	156,016	-	9,000	-	(147,016)
Operation of non-instructional services	602,755	385,243	263,825	-	46,313
Extracurricular activities	375,900	58,173	-	-	(317,727)
Interest and fiscal charges	19,699	-	-	-	(19,699)
Total governmental activities	\$ 16,432,947	\$ 731,311	\$ 679,957	\$ 26,123	(14,995,556)
<u>General Revenues:</u>					
Property taxes levied for:					
General purposes					5,580,488
Debt service					66,136
Capital outlay					155,972
Grants and entitlements not restricted to specific programs					8,968,344
Investment earnings					66,581
Miscellaneous					228,346
Total general revenues					15,065,867
Change in net assets					70,311
Net assets beginning of year, as restated					6,790,880
Net assets end of year					\$ 6,861,191

See accompanying notes to the basic financial statements.

Jefferson Area Local School District

Balance Sheet

Governmental Funds

June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 2,010,607	\$ 542,622	\$ 2,553,229
Receivables:			
Taxes	5,980,735	1,159,238	7,139,973
Accounts	9,203	-	9,203
Intergovernmental	4,902	39,930	44,832
Inventory held for resale	-	9,055	9,055
Materials and supplies inventory	-	36,444	36,444
Prepaid items	184,505	13,368	197,873
Restricted assets:			
Equity in pooled cash and cash equivalents	156,708	-	156,708
Total assets	<u>\$ 8,346,660</u>	<u>\$ 1,800,657</u>	<u>\$ 10,147,317</u>
<u>Liabilities:</u>			
Accounts payable	\$ 29,051	\$ 3,394	\$ 32,445
Accrued wages	1,163,877	91,299	1,255,176
Intergovernmental payable	92,138	5,350	97,488
Pension obligations payable	343,860	21,134	364,994
Compensated absences payable	160,593	-	160,593
Deferred revenue	3,929,189	1,048,616	4,977,805
Total liabilities	<u>5,718,708</u>	<u>1,169,793</u>	<u>6,888,501</u>
<u>Fund balances:</u>			
Reserved for:			
Encumbrances	98,359	10,136	108,495
Budget stabilization	1,922	-	1,922
Textbooks and instructional materials	154,786	-	154,786
Property taxes	2,060,749	112,129	2,172,878
Prepaid items	184,505	13,368	197,873
Contributions	-	1,043	1,043
Unreserved, undesignated, reported in:			
General fund	127,631	-	127,631
Special revenue funds	-	132,940	132,940
Capital projects funds	-	361,146	361,146
Permanent funds	-	102	102
Total fund balances	<u>2,627,952</u>	<u>630,864</u>	<u>3,258,816</u>
Total liabilities and fund balances	<u>\$ 8,346,660</u>	<u>\$ 1,800,657</u>	<u>\$ 10,147,317</u>

See accompanying notes to the basic financial statements.

Jefferson Area Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balances		\$	3,258,816
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,605,101
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Property taxes	\$	645,599	
Intergovernmental receivables		2,717	
Tuition and fees		<u>7,993</u>	
			656,309
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.			(1,495)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:			
General obligation bonds	\$	(398,196)	
Compensated absences		<u>(1,259,344)</u>	
Total			<u>(1,657,540)</u>
Net assets of governmental activities		<u>\$</u>	<u>6,861,191</u>

See accompanying notes to the basic financial statements.

Jefferson Area Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 5,452,891	\$ 214,826	\$ 5,667,717
Intergovernmental	8,985,522	732,860	9,718,382
Interest	66,581	65	66,646
Tuition and fees	250,110	28,224	278,334
Extracurricular activities	-	88,455	88,455
Gifts and donations	500	-	500
Charges for services	-	349,430	349,430
Rent	601	-	601
Miscellaneous	214,223	20,122	234,345
Total revenues	<u>14,970,428</u>	<u>1,433,982</u>	<u>16,404,410</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	7,553,128	257,140	7,810,268
Special	927,796	320,041	1,247,837
Vocational	183,478	-	183,478
Support services:			
Pupils	1,357,008	11,658	1,368,666
Instructional staff	130,343	34,095	164,438
Board of education	12,301	-	12,301
Administration	1,016,397	16,801	1,033,198
Fiscal	532,854	6,735	539,589
Business	14,015	-	14,015
Operation and maintenance of plant	1,465,537	84,963	1,550,500
Pupil transportation	904,317	8,000	912,317
Central	146,196	9,820	156,016
Operation of non-instructional services	58,910	539,873	598,783
Extracurricular activities	320,625	49,905	370,530
Capital outlay	69,197	75,967	145,164
Debt service:			
Principal retirement	-	46,276	46,276
Interest and fiscal charges	-	19,859	19,859
Total expenditures	<u>14,692,102</u>	<u>1,481,133</u>	<u>16,173,235</u>
Excess of revenues over (under) expenditures	<u>278,326</u>	<u>(47,151)</u>	<u>231,175</u>
<u>Other financing sources (uses):</u>			
Transfers in	-	105,741	105,741
Transfers out	(60,785)	(44,956)	(105,741)
Total other financing sources (uses)	<u>(60,785)</u>	<u>60,785</u>	<u>-</u>
Net change in fund balances	217,541	13,634	231,175
Fund balances beginning of year, as restated	2,410,411	617,230	3,027,641
Fund balances end of year	<u>\$ 2,627,952</u>	<u>\$ 630,864</u>	<u>\$ 3,258,816</u>

See accompanying notes to the basic financial statements.

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

Net change in fund balances - total governmental funds \$ 231,175

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

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

In the current period, these amounts are:

Capital asset additions	\$	145,164	
Depreciation expense		(388,542)	
Excess of capital asset additions over depreciation expense			(243,378)

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

Property taxes	\$	134,879	
Intergovernmental		(44,024)	
Tuition and fees		7,993	
Net change in deferred revenues during the year			98,848

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 46,276

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

Increase in compensated absences	\$	(62,770)	
Decrease in accrued interest		160	
Total additional expenditures			(62,610)

Change in net assets of governmental activities \$ 70,311

See accompanying notes to the basic financial statements.

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 5,215,000	\$ 5,215,000	\$ 5,419,630	\$ 204,630
Intergovernmental	9,089,125	9,089,125	8,980,620	(108,505)
Interest	33,400	33,400	66,581	33,181
Tuition and fees	216,275	216,275	250,110	33,835
Gifts and donations	500	500	500	-
Rent	1,000	1,000	601	(399)
Miscellaneous	156,200	156,200	209,601	53,401
Total revenues	<u>14,711,500</u>	<u>14,711,500</u>	<u>14,927,643</u>	<u>216,143</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,216,277	8,246,694	7,504,564	742,130
Special	1,119,103	1,109,117	921,300	187,817
Vocational	158,350	151,656	185,235	(33,579)
Support services:				
Pupils	1,470,627	1,467,577	1,394,966	72,611
Instructional staff	185,040	187,379	130,460	56,919
Board of education	16,067	16,067	12,301	3,766
Administration	1,145,369	1,152,333	1,042,020	110,313
Fiscal	614,654	617,865	528,653	89,212
Business	17,500	17,500	15,915	1,585
Operation and maintenance of plant	1,711,513	1,729,753	1,461,215	268,538
Pupil transportation	1,085,528	1,099,392	1,045,403	53,989
Central	201,000	207,332	174,200	33,132
Operation of non-instructional services	60,925	60,925	66,362	(5,437)
Extracurricular activities	343,459	343,459	327,695	15,764
Capital outlay	20,000	20,000	17,150	2,850
Total expenditures	<u>16,365,412</u>	<u>16,427,049</u>	<u>14,827,439</u>	<u>1,599,610</u>
Excess of revenues over (under) expenditures	<u>(1,653,912)</u>	<u>(1,715,549)</u>	<u>100,204</u>	<u>1,815,753</u>
Other financing sources (uses):				
Proceeds from the sale of capital assets	3,500	3,500	3,000	(500)
Refund of prior year expenditures	-	-	7,731	7,731
Refund of prior year receipts	-	(24)	(24)	-
Advances in	-	-	5,999	5,999
Transfers out	(200,000)	(199,976)	(60,785)	139,191
Total other financing sources (uses)	<u>(196,500)</u>	<u>(196,500)</u>	<u>(44,079)</u>	<u>152,421</u>
Net change in fund balance	(1,850,412)	(1,912,049)	56,125	1,968,174
Fund balance at beginning of year	1,940,428	1,940,428	1,940,428	-
Prior year encumbrances appropriated	62,137	62,137	62,137	-
Fund balance at end of year	<u>\$ 152,153</u>	<u>\$ 90,516</u>	<u>\$ 2,058,690</u>	<u>\$ 1,968,174</u>

See accompanying notes to the basic financial statements.

Jefferson Area Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

Assets:

Equity in pooled cash and cash equivalents

Liabilities:

Due to students

Net assets:

Held in trust for scholarships
 Total net assets

	Private Purpose Trusts	
	Scholarship	Agency
Equity in pooled cash and cash equivalents	\$ 10,357	\$ 46,993
Due to students	-	\$ 46,993
Held in trust for scholarships	10,357	
Total net assets	\$ 10,357	

See accompanying notes to the basic financial statements.

Jefferson Area Local School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
	Scholarship
<u>Additions:</u>	
Interest	\$ 224
Gift and donations	50
Total additions	274
<u>Deductions:</u>	
Payments in accordance with trust agreements	400
Change in net assets	(126)
Net assets beginning of year	10,483
Net assets end of year	\$ 10,357

See accompanying notes to the basic financial statements.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Jefferson Area Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines. It is staffed by 94 non-certified employees and 126 certified full-time teaching personnel who provide services to 2,040 students and other community members. The District currently operates 3 instructional buildings, 1 administrative building, and 2 garages.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among 30 school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts support NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and two treasurers, one from each county. The District was not represented on the Governing Board during fiscal year 2005. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 Park Avenue, Warren, Ohio, 44481.

Ashtabula County Schools Council of Governments The District's Superintendent is a member of the governing board of the Ashtabula County Schools Council of Governments, a separate entity formed for the purpose of purchasing health insurance. The District has no ongoing financial interest or financial responsibility to the Council of Governments other than via participation by purchasing health insurance.

Ashtabula County Joint Vocational School District The District is a member of the Ashtabula County Joint Vocational School District. The Ashtabula County Joint Vocational School District has a nine-member Board of Education and is funded by levying millage and state and federal support. The District has no ongoing financial interest or financial responsibility to the Ashtabula County Joint Vocational School District.

INSURANCE RATING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The following is the District's funds:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for scholarship programs 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 account for student activity programs.

C. Basis of Presentation and Measurement Focus

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

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

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

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

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

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

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

The private purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

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

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Ashtabula County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level of expenditures within each function within each fund, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005. The original budgeted expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund represents the original appropriations approved by the Board of Education for fiscal year 2005. The final budgeted expenditures reflect the final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

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

Under existing Ohio statutes, all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the Auxiliary Services special revenue fund, the Permanent fund, and the private purpose trust fund.

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

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

Jefferson Area Local School District
 Ashtabula County, Ohio
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2005

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Districts capitalization threshold is \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

Description	Governmental Activities Estimated Lives
Land Improvements	20 years
Buildings and Improvements	20 - 50 years
Furniture and Equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 20 years of current service with the District, or 15 years of service and 45 years of age, or 5 years of service and 50 years old were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the fund financial statements.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, budget stabilization, textbooks and instructional materials, property tax revenue unavailable for appropriation, prepaid items, and endowment (contributions). The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

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

M. Net Assets

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

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

N. Estimates

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

O. Restricted Assets

Restricted assets reported in the general fund on the fund financial statements represent cash and cash equivalents set-aside to maintain a reserve for budget stabilization and textbooks and instructional materials. These reserves are required by state statute. See Note 16.

P. Interfund Activity

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

Deficit	
Non-major Governmental Funds	
Reading intervention	\$ 23,479
Title I	22,441
Title V	6,863

These non-major governmental funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

Jefferson Area Local School District
 Ashtabula County, Ohio
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Undeposited Cash At fiscal year-end, the School District had \$342 in undeposited cash on hand which is included as part of “equity in pooled cash and cash equivalents.”

Deposits

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

As of June 30, the carrying amount of the School District's deposits was \$ 2,224,383. The School District's bank balance of \$2,618,113 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department and not in the School District's name	\$ 2,456,634
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Investments

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

Investment type	Fair Value	Maturity	Rating
Repurchase agreements	\$ 542,562	Daily	N/A ⁽¹⁾

⁽¹⁾ Underlying securities are exempt.

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

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$66,581, which includes \$13,186 assigned from other School District funds.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's \$542,562 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the School District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

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

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

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
Major Governmental Fund:		
General	\$ -	\$ 60,785
Non-major Governmental Funds:		
Debt service	950	-
Management information systems	4,199	-
Ohio reads	254	-
Reading intervention	12,295	-
Title I	88,043	-
Title V	-	6,000
Drug-free school grant	-	1,827
Improving teacher quality	-	36,177
Miscellaneous Federal Grants	-	952
Total	\$ 105,741	\$ 105,741

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 5 - INTERFUND TRANSFERS – (Continued)

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

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property tax received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax received during calendar year 2005 (other than public utility property) represents collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Geauga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half property tax payments collected by the County by June 30, 2005, are intended to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 6 - PROPERTY TAXES – (Continued)

Accrued property taxes receivable includes real property, public property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$2,060,749 in the general fund, \$112,129 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2004 was \$2,027,488 in the general fund, \$110,292 in the permanent improvement capital projects fund.

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

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

Property Category	<u>2005</u> <u>Assessed Value</u>	<u>2004</u> <u>Assessed Value</u>
Real Property		
Residential and Agricultural	\$ 162,278,030	\$ 159,284,100
Commercial and Industrial	25,916,870	25,180,520
Public Utilities	87,780	88,470
Tangible Personal Property		
General	15,600,930	16,319,160
Public Utilities	12,611,110	9,915,660
Total	<u>\$ 216,494,720</u>	<u>\$ 210,787,910</u>

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 7 - CAPITAL ASSETS

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

	Restated Balance <u>7/1/2004</u>	<u>Addition</u>	<u>Deletion</u>	Balance <u>6/30/2005</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 540,800	\$ -	\$ -	\$ 540,800
<i>Capital Assets, being depreciated:</i>				
Land Improvements	900,495	-	-	900,495
Buildings and Improvements	6,359,710	-	-	6,359,710
Furniture, Equipment and Fixtures	1,394,330	20,176	-	1,414,506
Vehicles	1,324,384	124,988	-	1,449,372
Total Capital Assets, being depreciated:	<u>9,978,919</u>	<u>145,164</u>	<u>-</u>	<u>10,124,083</u>
Less Accumulated Depreciation:				
Land Improvements	(592,286)	(18,675)	-	(610,961)
Building and Improvements	(3,613,560)	(204,133)	-	(3,817,693)
Furniture, Equipment, and Fixtures	(751,347)	(60,633)	-	(811,980)
Vehicles	(714,047)	(105,101)	-	(819,148)
Total Accumulated Depreciation	<u>(5,671,240)</u>	<u>(388,542)</u>	<u>-</u>	<u>(6,059,782)</u>
Total Capital Assets being depreciated, net	<u>4,307,679</u>	<u>(243,378)</u>	<u>-</u>	<u>4,064,301</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,848,479</u>	<u>\$ (243,378)</u>	<u>\$ -</u>	<u>\$ 4,605,101</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 14,281
Vocational	184
Support Services:	
Pupil	344
Instructional Staff	843
Administration	1,042
Operation and Maintenance of Plant	257,848
Pupil Transportation	104,658
Operation of Non-instructional Services	3,972
Extracurricular Activities	5,370
Total Depreciation Expense	<u>\$ 388,542</u>

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, intergovernmental grants, and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

Intergovernmental receivables at June 30, 2005, are presented below:

<u>Governmental activities</u>	<u>Amount</u>
General	\$ 4,902
Food service	35,408
Disadvantaged pupil impact aid	<u>4,522</u>
Total intergovernmental receivable	<u>\$ 44,832</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance 7/1/2004</u>	<u>Addition</u>	<u>Deletion</u>	<u>Balance 6/30/2005</u>	<u>Due within one year</u>
Notes Payable	\$ 444,472	\$ -	\$ (46,276)	\$ 398,196	\$ 51,276
Compensated Absences Payable	<u>1,196,574</u>	<u>273,060</u>	<u>(210,290)</u>	<u>1,259,344</u>	<u>73,971</u>
Total Governmental Activities	<u>\$ 1,641,046</u>	<u>\$ 273,060</u>	<u>\$ (256,566)</u>	<u>\$ 1,657,540</u>	<u>\$ 125,247</u>

Asbestos Notes - Under the Asbestos Schools Hazard Abatement Act of 1984, the District received a loan of \$202,876 to assist in an asbestos removal project. The repayment schedule for the loan portion is \$5,638 every six months, with the first payment made in June 1991 and the final amount due December 2008.

Energy Conservation Notes - The District issued Energy Conservation Notes in the amount of \$600,000 on March 3, 1998. The notes mature in December 2012 and have an average interest rate of 5.125%.

Jefferson Area Local School District
 Ashtabula County, Ohio
 Notes to the Basic Financial Statements
 For the Year Ended June 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)

The annual maturities of the general obligation notes as of June 30, 2005, are as follows:

Fiscal Year Ended	Principal
2006	51,276
2007	51,276
2008	50,644
2009	45,000
2010	45,000
2011-13	155,000
Total	\$ 398,196

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$19,086,329 and an unvoted debt margin of \$216,495.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only administrative and support personnel who are under a full year contract (11 and 12 month) are eligible for vacation time. The Superintendent is granted 20 days vacation per year and the Treasurer is granted 15 days vacation per year.

Classified employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Any vacation time which is unused as of the employee's anniversary date is expired and not available for use in a subsequent year unless approved by the Superintendent.

The classified personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1 - 3	10
4 - 7	15
8 - Beyond	20

Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for certified employees is unlimited; classified employees, 300 days.

For all employees, retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 81 days for certified and 75 days for classified.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate. The District also provides umbrella liability insurance in the amount of \$3,000,000 for each occurrence and \$3,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$28,029,309 and \$125,000 in equipment breakdown coverage.

B. Workers' Compensation

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance rating pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Health Insurance

In July 1987, the District joined the Ashtabula County Schools Council of Governments Employees Insurance Consortium to insure its medical claims. The Consortium currently includes seven member school districts. Contributions are determined by the Consortium's Board of Directors. The program is operated as full indemnity program with no financial liability (other than monthly premiums) or risk to the District.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2005, 10.57% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$243,152, \$404,668, and \$237,544, respectively; 40% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$145,868, representing the unpaid contribution for fiscal year 2005 is recorded as an intergovernmental payable.

B. State Teachers Retirement System of Ohio

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS – (Continued)

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10% of their annual covered salaries and the School District was required to contribute 14%. For fiscal year 2006, 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$950,456, \$946,848, and \$889,811, respectively; 83% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$159,517, representing the unpaid contribution for fiscal year 2005, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2006 (information available at time of this report) were \$11,879 made by the School District and \$28,233 made by the plan members.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. For the School District this amount equaled \$73,112 during the 2005 fiscal year. The balance in the Health Care Stabilization Fund for the STRS was \$3.5 billion at June 30, 2006. For the year ended June 30, 2006 (information available at time of this report) the net health care costs paid by the STRS were \$282,743,000 and eligible benefit recipients totaled 119,184.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. For the fiscal year 2006 (information available at time of this report), employer contributions to fund health care benefits were 3.42% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006 (information available at time of this report), the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$78,704, which includes a surcharge of \$32,175 during the 2006 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 (information available at time of this report) were \$158,751,207. The target level for the health care reserve is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (information available at time of this report), the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual claims costs. The number of participants eligible to receive benefits is 59,492.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

Net Change In Fund Balance	
<u>General Fund</u>	
GAAP basis	\$ 217,541
Net adjustment for revenue accruals	(32,055)
Net adjustment for expenditure accruals	9,259
Encumbrances	<u>(144,620)</u>
Budget basis	<u>\$ 50,125</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District a defendant in a lawsuit filed in February of 2003 for injuries to a student that occurred during a bus accident in August of 1987. The District does not foresee any material effect on the financial statements resulting from this litigation.

C. 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 its financial operations.

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. Effective April 10, 2001, the District is no longer required to maintain a budget stabilization reserve. However, restrictions have been placed on the disposition of any balances remaining in the previously required budget reserve. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stablization	Total
Set-Aside Cash Balance, June 30, 2004	\$ (20,457)	\$ -	\$ 1,922	\$ (18,535)
Current Year Required Set-Aside	306,827	306,827	-	613,654
Current Year Offset Credits	-	(116,565)	-	(116,565)
Qualifying Disbursements	(131,584)	(237,384)	-	(368,968)
Total	<u>\$ 154,786</u>	<u>\$ (47,122)</u>	<u>\$ 1,922</u>	<u>\$ 109,586</u>
Cash Balance Carried Forward to FY 2006	<u>\$ 154,786</u>	<u>\$ -</u>	<u>\$ 1,922</u>	<u>\$ 156,708</u>

The District had offsets and qualifying disbursements during the year that reduced the textbooks set-aside amount below zero. This excess amount may be used to reduce the set-aside requirements of future years. The District also had offsets and qualifying disbursement that reduced the capital acquisition set-aside amount below zero, however, the amount may not be carried forward to future years.

NOTE 17 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES AND NET ASSETS

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

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

Jefferson Area Local School District
Ashtabula County, Ohio
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 17 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES AND NET ASSETS

The restatement of fund balance is presented below:

	General	Nonmajor Governmental Funds	Total
Fund balances at June 30, 2004	\$ 2,638,774	\$ 654,892	\$ 3,293,666
Restatement of intergovernmental payable	(228,363)	(37,662)	(266,025)
Restated fund balances at July 1, 2004	\$ 2,410,411	\$ 617,230	\$ 3,027,641

Following the close of the previous fiscal year, the School District changed the capitalization threshold to \$2,500 in addition to correcting errors found in the capital asset balances. As a result of the correction of the errors and increasing the capitalization threshold, a restatement of capital assets and net assets is required as presented below:

	Governmental Activities
Net assets at June 30, 2004	\$ 7,458,684
Restatement of capital assets	(667,804)
Restated net assets at July 1, 2004	\$ 6,790,880

JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through The Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550		\$46,947		\$46,947
National School Breakfast Program	05-PU-2004	10.553	\$11,682		\$11,682	
	05-PU-2005		28,742		28,742	
Sub-total - National School Breakfast Program			<u>40,424</u>		<u>40,424</u>	
National School Lunch Program	LL-P4-2004	10.555	51,115		51,115	
	LL-P4-2005		155,922		137,912	
Sub-total National School Lunch Program			<u>207,037</u>		<u>207,037</u>	
Total Nutrition Cluster			<u>247,461</u>	<u>46,947</u>	<u>247,461</u>	<u>46,947</u>
Total U.S. Department of Agriculture			<u>247,461</u>	<u>46,947</u>	<u>247,461</u>	<u>46,947</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through The Ohio Department of Education:</i>						
Grants to Local Educational Agencies Title I School Subsidy	C1-S1 04	84.010	1,071		48,576	
	C1-S1 05		217,448		217,448	
Sub-total - Title I			<u>218,519</u>		<u>266,024</u>	
Safe and Drug Free Schools Grant	DR-S1-2004	84.186	(90)			
	DR-S1-2005		9,598		8,500	
Sub-total - Safe and Drug Free Schools Grant			<u>9,508</u>		<u>8,500</u>	
Innovative Education Program Strategies Title V	C2-S1 2004	84.298	10,527		10,284	
	C2-S1 2005		962			
Sub-total - Title V			<u>11,489</u>		<u>10,284</u>	
Title II-D, Technology	TJS1-2004	84.318	353			
	TJS1-2005		1,108		1,099	
Sub-total - Enhancing Education through Technology			<u>1,461</u>		<u>1,099</u>	
Advanced Placement Program	AV-TF-05	84.330	104		104	
Title II-A, Improving Teacher Quality	TRS1-2004	84.367	48,975		11,867	
	TRS1-2005		38,747		39,679	
Sub-total Title II-A - Improving Teacher Quality			<u>87,722</u>		<u>51,546</u>	
Total -- U.S. Department of Education			<u>328,803</u>		<u>337,557</u>	
Totals			<u>\$576,264</u>	<u>\$46,947</u>	<u>\$585,018</u>	<u>\$46,947</u>

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—FOOD DISTRIBUTION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D – TRANSFERS

During 2005, the Ohio Department of Education (ODE) authorized the School District to reallocate money from one Federal Program to another. A detail listing of the transfers is as follows:

Number	Program Title	Out	In
84.186	Safe and Drug-Free Schools Grant (DR-S1-04)	\$ 1,827	
84.298	Innovative Education Program Strategies (C2-S1-04)	6,000	
84.318	Title II-D, Technology (TJ-S1-04)	952	
84.367	Title II-A, Improving Teacher Quality (TR-S1-04)	38,726	
84.010	Title I (C1-S1-04)		\$47,505

NOTE E – CARRYOVER FUNDS

Negative receipts are shown in the Safe and Drug Free Grant – CFDA # 84.186. These negative receipts represent monies on the Final Expenditure Report that were unspent after the initial period of availability. These monies were in accordance with allowable carryover provisions and added to the following fiscal year award amounts.



Mary Taylor, CPA

Auditor of State

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

Jefferson Area Local School District
Ashtabula County
45 East Satin Street
Jefferson, Ohio 44047

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Jefferson Area Local School District (the School District) as of and for the year ended June 30, 2005 which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 10, 2008, which was qualified due to the School District's athletic program records, recorded as charges for services and extracurricular activities, being discarded and unavailable for audit, we also qualified our report because certain accounting records to support the note disclosure for the qualifying disbursements for the textbook reserve and capital maintenance reserve accounts were not presented for audit. Except for the inability to fully audit the athletic programs charges for services and the note disclosure on the set asides 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 School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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 School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-003 through 2005-005, 2005-007 and 2005-008.

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. We consider reportable conditions 2005-003 and 2005-004 listed above to be material weaknesses.

In a separate letter to the School District's management dated April 10, 2008, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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www.auditor.state.oh.us

Jefferson Area Local School District

Ashtabula County

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Page 2

Compliance and Other Matters

As part of reasonably assuring whether the School 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items, 2005-001 through 2005-006.

In a separate letter to the School District's management dated April 10, 2008, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor
Auditor of State

April 10, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Jefferson Area Local School District
Ashtabula County
45 East Satin Street
Jefferson, Ohio 44047

To the Board of Education:

Compliance

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

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

As described in item 2005-009 in the accompanying schedule of findings, the School District did not comply with requirements regarding Cash Management that is applicable to its Title II- A program. Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Jefferson Area Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

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Internal Control Over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated April 10, 2008.

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



Mary Taylor CPA
Auditor of State

April 10, 2008

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)()(i)</i>	Type of Financial Statement opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title II-A: CFDA # 84.367; Nutrition Cluster CFDA #s 10.550, 10.553 and 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Noncompliance Citation – Finding for Recovery

The Treasurer, Edward R. Williams, was hired on November 15, 2004 by the Jefferson Area Local School District under a supplemental contract for a period of 42 days commencing on November 15, 2004 through January 11, 2005. The supplemental contract for this time period was to pay the Treasurer \$10,459.68. Based on the payroll records, it was determined that the Treasurer was paid \$10,957.85 for this time period which resulted in overpayment in the amount of \$498.17.

**FINDING NUMBER 2005-001
 (Continued)**

The following table represents the biweekly amount to be paid per the contract and the actual payments received for the time period November 15, 2004 through January 11, 2005:

Pay Period Ending	Biweekly Pay per Contract	Actual Biweekly Amount Paid	Overpayment
November 26, 2004	\$2,091.93	\$2,091.93	\$0
December 10, 2004	2,091.93	2,216.48	124.55
December 24, 2004	2,091.93	2,216.48	124.55
January 07, 2005	2,091.93	2,216.48	124.55
January 21, 2005	<u>2,091.96</u>	<u>2,216.48</u>	<u>124.52</u>
Totals	\$10,459.68	\$10,957.85	\$498.17

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section §117.28**, a Finding for Recovery is hereby issued for public monies illegally expended against Edward R. Williams, Treasurer, and The Cincinnati Insurance Company, his bonding company, jointly and severally, in the amount of \$498.17, and in favor of the General Fund of the Jefferson Area Local School District.

Officials' Response:

Edward Williams agreed and will pay back to the School District the \$498.17 in four equal payments of \$124.55 which will be deducted from his pay check starting with the February 29, 2008 pay.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Revised Code § 117.38 requires all public offices to file a financial report for each fiscal year. Cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. GAAP-basis entities must file annual reports within 150 days. The Auditor of State may prescribe forms by rule or may issue guidelines, 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. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains un-filed, not to exceed seven hundred fifty dollars.

The report shall contain the following: 1) amount of collections and receipts due from each source; 2) amount of expenditures for each purpose; 3) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and 4) public debt of each taxing district, the purpose of the debt, and how the debt will be repaid.

Also the public office must publish notice in the local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

For the year ended June 30, 2005, the School District did not file an annual report with the Auditor of State's office and did not publish a notice in the paper that the report is available for review.

We recommend that the School District comply with the above-mentioned code section and file their annual report and publish said notice in a local newspaper.

Officials' Response

Will be corrected in the future.

**FINDING NUMBER 2005-003
(Continued)**

Noncompliance Citation and Material Weakness

Athletic Event Receipts

Ohio Revised Code § 149.351 states that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Revised Code Section 149.38 through 149.42.

Individual ticket sales reports are used by the Athletic Department to account for tickets sold for individual athletic events. These reports document the number of tickets sold at each price level, the total amount received for each athletic event, cash over/shortage and signature of ticket collector.

The District could not locate ticket sales reports for the athletic events. The District has a policy in place which requires the completion of all ticket sales reports. The policy also requires all ticket sales with any other supporting documentation be forwarded to the Treasurer's Office for review.

The Athletic Director did not maintain the pay-in orders and corresponding receipts for gate revenue remitted to the Treasurer. Instituting procedures and control over athletic gate receipts will help ensure all revenue is properly recorded, and any errors will be detected in a timely manner. Noncompliance with this policy could result in monies due not being collected by the District and also resulted in qualification of the auditor's opinion.

Ticket sales and supporting documentation should be maintained and forwarded to the Treasurer's Office in order to comply with District policy.

To help improve accountability over the athletic gate receipts, the Athletic Department should institute the following:

1. Ticket Sales Report, pay-in order, and Treasurer's receipt forms should be retained by the Athletic Director.
2. The Athletic Director should review and sign off on the Ticket Sales Report.
3. When the deposits slips are sent to the Treasurer, the Treasurer should perform an internal audit function by comparing the Ticket Sales Report to the pay-in order and deposit slip. The Treasurer should sign off on the Ticket Sales Report.
4. The Athletic Director should maintain a perpetual inventory of tickets purchased. This record should include:
 - a) Date tickets issued for sale;
 - b) Person responsible for receipt of tickets for sale;
 - c) Location of sale;
 - d) Athletic event and date;
 - e) Type of ticket (student, adult, presale);
 - f) Beginning and ending number of tickets sold; and
 - g) Total deposited with the Treasurer
5. The Treasurer should purchase the tickets that are to be sold for the athletic events. A perpetual inventory of tickets should be maintained within the Treasurer's Office and a record of the tickets in possession of the Athletic Department also being accounted for.

**FINDING NUMBER 2005-003
(Continued)**

6. At the conclusion of the school year, unsold tickets should be turned into the Treasurer's office. A review should be made of the ticket sales for the school year by using the inventory, gate reports, and unused tickets to determine proper accountability of ticket sales.

These procedures will strengthen the accountability and completeness controls over athletic ticket sale receipts.

Officials' Response

These records will be kept in the future and the recommendation will be implemented.

FINDING NUMBER 2005-004

Noncompliance Citation and Material Weakness

Ohio Revised Code §§ 3315.17 and 3315.18 require every city, local, exempted village and joint vocational school district to establish two reserves, one for textbooks and instructional materials and one for capital (acquisition) and maintenance. The reserves are to be accounted for in the General Fund using any reasonable accounting method.

Jefferson Area Local School District had Board Policies in place for the Textbook and Instructional Materials Cost Center (Policy 6661) and the Capital Maintenance Cost Center (Policy 6662).

The Treasurer's worksheet for the set-asides was not complete. The worksheet listed the required amount (\$306,827), but did not contain amounts for credits or qualifying disbursements. The Set-Aside Note to the Basic Financial Statements reported qualifying disbursements of \$131,584 in the Textbook Reserve and \$237,384 in the Capital Maintenance Reserve. No support for these expenditures was in evidence.

The School District did not establish the reserve accounts in the General Fund (using special cost centers), contrary to the abovementioned Revised Code and Local requirements. By not maintaining the proper support documentation for the Note disclosure in the report, we could not verify the amount of qualifying expenditures reported or whether the District met the reserve requirements as stated and resulted in qualification of the auditor's opinion.

We recommend the School District establish the required reserve accounts within the General Fund and provide proper support documentation for the expenditures being shown.

Officials' Response

Will establish these cost centers as soon as possible.

FINDING NUMBER 2005-005

Noncompliance Citation and Reportable Condition

Ohio Revised Code § 5705.10(H) states that money paid into a fund may only be used for the purpose for which the fund was established. Typically a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During fiscal year 2005, negative cash fund balances were noted throughout the year for the following funds:

Fund	Dates	Range of Deficit Balances
Title I	January 2005 – May 2005	(\$ 38,435) – (\$153,247)
Title II-A	January 2005 – May 2005	(\$1,776) – (\$4,924)
Reading Intervention	February 2005 – May 2005	(\$ 6,431) – (\$10,400)
EMIS	January 2005 – May 2005	(\$2,019) – (\$3,173)

A negative fund balance also indicates a violation of **Ohio Revised Code § 5705.41(D)**, which requires that a certificate from the Fiscal Officer that the amount required for said expenditure has been lawfully appropriated and is in the treasury or in the process of being collected to the credit of an appropriate fund free from any previous encumbrances.

We recommend the School District Treasurer monitor fund balances to properly ensure that monies from fund are not utilized to pay the obligation of another fund. To cover temporary cash flow shortages, the School District may be able to advance money from other funds. The School District can refer to Auditor of State Bulletin 97-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

Officials' Response

Will implement the recommendation by monitoring fund balances more closely.

FINDING NUMBER 2005-006

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision or taxing unit from making expenditure unless it has been properly appropriated.

The following funds had expenditures which exceeded appropriations:

Fund	Appropriations	Expenditures	Amount of Variance
Title I Fund	\$274,524	\$306,562	\$(32,038)

In that appropriations are based off of the Amended Certificate of Estimated Resources, expenditures exceeding those appropriations could result in deficit fund balances occurring without sufficient revenues to cover the deficits. The Treasurer should not certify the availability of funds and also deny any payment requests exceeding appropriations. The Treasurer may request the Board to approve amending estimated resources and subsequently increasing appropriations if additional revenues are received. The Board and Treasurer should monitor throughout the year all budgetary information to determine if the projected budgeted is in line to the actual data being received and expended.

Officials' Response

Will comply with this Ohio Revised Code Section and implement the recommendation in the future.

FINDING NUMBER 2005-007

Reportable Condition - Cash Reconciliation

In order to ensure the accuracy of accounting records, an adequate system of internal controls requires an entity to perform periodic reconciliations of their accounts and records which are reviewed and approved by a supervisory level employee or elected official separate from the person performing said function. To be effective, these reconciliation procedures must be performed regularly and include a thorough investigation and follow-up of all significantly reconciling items.

Monthly bank reconciliations for the District's general operating account were not properly performed for fiscal year 2005. The reconciliation prepared for the annual report did not include adequate support in order to reconcile the District's ledgers to bank balances. Also the Athletic checking account was not reconciled for the audit period.

The following deficiencies and reconciling items were noted in the Treasurer's reconciliation:

1. Depository balances reported on the Cash Reconciliation (Annual Report, Exhibit 1) Report did not agree with the bank balances.
2. Outstanding checks reported as of June 30, 2005 did not agree with the outstanding check report.
3. Payroll accounts included in the cash reconciliation for June 30, 2005 do not belong on the general operating cash reconciliation. These funds were the payroll account and the payroll flex spending account. The payroll account is a clearing account.
4. Interest was recorded by the Treasurer during fiscal year 2005 earned on accounts that were not included in the District's book balances. Two savings accounts were opened at Sky Bank without Board approval – Falcon Pride Committee and the Falcon Pride Levy Committee.

When cash reconciliations are not properly performed, monthly fund balances may be understated or overstated and management can not be assured that the statements reflect the proper financial activities of the District. Lack of legislative monitoring of the monthly bank statements may lead to undetected errors, irregularities, or misappropriation of the District's assets.

We recommend that the General Operating Checking account reconciliation be prepared by the Treasurer. All discrepancies between the amounts on the bank statement and the fund balances on the Treasurer's records should be investigated and resolved in a timely manner. Documentation supporting reconciling items should be retained. The Board of Education should closely monitor the reconciliation process by reviewing the follow-up of any deficiencies or reconciling items.

Officials' Response

These records will be kept in the future and the recommendation will be implemented.

FINDING NUMBER 2005-008

Reportable Condition - Approval of Student Activities

Student Activity Policy (6610) was adopted by the Board to establish financial controls for the administration of the activities of the student body organization. The Policy further instructed the Superintendent to implement administrative guidelines to ensure that all student activity funds are managed, recorded, and deposited in accordance with law and sound fiscal practice.

A Student Activity Handbook is distributed to all Student Activity Sponsors at the beginning of each school year. This Handbook contains information regarding Student Activity Budgets and Sales/Service Projects (including sample forms) and procedures for depositing and purchasing for Student Activity Funds.

The District failed to maintain sufficient documentation for the collection of monies to help support amounts deposited with the Treasurer's office. The District's management has mandated the following procedures to ensure that student fund raising activities are functioning in accordance with adopted Board policies:

- An Anticipated Activity Budget Report must be prepared by the Activity Sponsor at the beginning of the school year. The Budget Report includes the activity purpose and a summary of the projected income and disbursements. The Budget Report must be approved by the School Principal, Superintendent, and Board of Education.
- A Student Activity Sales/Service Project Report must be prepared by the Activity Sponsor prior to the beginning of the sale/service. A Sales Project involves purchasing an item and re-selling it (fruit or carnation sales, etc.) for which cash will be collected. A Service Project involves the collection of money for a service-no expenditures take place. Example of service projects are car washes, bake sales, sales of donated apples, etc.
- The forms must first be signed by the Building Principal and then by the Superintendent. As soon as the sales/service project has been approved, the Treasurer will assign the project a number and the original will be returned to the Advisor.
- A Student Activity Sales Project Report must be prepared at the conclusion of each fund raising activity. All purchases should be listed by invoice number along with the revenue amounts turned into the Treasurer's office. This report will be used as a profit/loss statement and should be turned in at the completion of the respective project.

For the twenty-one (21) items tested:

- a) There was no evidence Budget Forms were prepared, presented and approved by the Board of Education.
- b) The Sales/Service Project Form was not completed for five of the student activity fund-raising projects.
- c) The profit/loss portion of the Student Activity Sales Project Potential Report was not completed.

Without the proper completion or use of the prescribed forms as established by the Board, a lack of accountability and consistency among student activity projects exists.

We recommend that management strictly enforce the mandates that have been adopted. Advisors should not start activities until the Board of Education and Superintendent approve the Anticipated Activity Budget. School Principals and Superintendents should approve the Sales/Service Project Reports after the report is completed by the Activity Advisor.

**FINDING NUMBER 2005-008
 (Continued)**

The main purpose of the utilization of the forms is to provide a tool for management to monitor, account for, and in most cases, determine if a profit or loss was made on the project.

Officials' Response

Have implemented this recommendation already.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2005-009
CFDA Title and Number	Title II-A - CFDA # 84.367
Federal Award Number / Year	045872; TR-S1-2003
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs and Reportable Condition

Cash Management

31 CFR part 205 and 34 CFR 80.21 require that when entities are funded on a reimbursement basis, program costs must be paid for by School District funds before reimbursement is requested from the State or Federal Government. When funds are advanced, the entity must follow procedures to minimize the time elapsing between the transfers of funds from the State/Federal agency to the time the expenditure is made. The first payment is initiated by the Ohio Department of Education upon approval of the application. Subsequent payments must be requested by the School District as needed using the online Project Cash Request (PCR). Except for the initial PCR, cash requests are limited to one month (up to 10% of the approved budget amount) plus any negative balance (amount by which program expenditures exceed project cash received to date). The Ohio Department of Education requires written explanation for monthly cash advance requests which exceed the 10% limit. Additionally, written explanations are required for cash advance requests when the balance on hand exceeds 10% of the approved budget amount.

Jefferson Area Local School District was under the advance basis assistance for the State Grants for Improving Teacher Quality, Title II-A Grant (CFDA # 84.367) and Reducing Class Size, Title VI-R (CFDA # 84.340) for fiscal year 2002.

Auditor of State Audit Bulletin 2002-006 was issued to inform Districts of changes in grants to be received in 2003. One such change was to roll Title VI-R, Reducing Class Size into Title II-A and to report such activity in Fund 590. The Federal Subsidy Report accounted for this change by posting a negative receipt in Title VI-R and a corresponding positive carryover adjustment in Title II-A in the amount of \$15,204. The Treasurer did not post the carryover amount in the Title II-A Fund (590-9304), but retained the balance in Title II-A Fund (590-2002) and expended the carryover amount in Fiscal Year 2004.

The Treasurer completed a Project Cash Request in June 2004 and included the \$15,204 in the expenditure amount. The Title VI-R Fund grant money had been received in Fiscal Year 2002 and was on hand. By including these expenditures in the PCR for Title II-A, the District, in effect, requested the amount again.

**FINDING NUMBER 2005-009
(Continued)**

Failure to properly post the carry over amount resulted in the District receiving an automated negative balance PCR for the \$15,204, based on a Project Cash Request Form filed on April 15, 2004 for the Title II-A TR-S1-2003 project. The effect of this error resulted in a cash balance in the Title II-A Fund (590-9203) in the amount of \$15,759.69. A carryover was approved from the Title II-A-2003 Fund to the Title II-A-2004 Fund in the amount of \$1,618.18; therefore leaving a questioned balance of \$14,141.51 that was not properly accounted for in prior carry over amounts or PCR requests.

By not posting carry over amounts to the proper projects, the District was in violation for receiving the advance of funds without expending them. The Treasurer should compare the information on the Project Cash Request Form (receipts and expenditures) to the amounts posted to the District's ledgers to ensure accuracy of federal grant fiscal information.

Officials' Response

This was corrected in April, 2006.

**JEFFERSON AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC 117.38 not filing annual report	No	Not Corrected – Repeated
2004-002	ORC 149.351 athletic records not keep for audit	NO	Not Corrected - Repeated
2004-003	ORC 3315.17 & 3315.18 reserve funds support documentation was not maintain	No	Not Corrected – Repeated
2004-004	ORC 5705.10H negative fund balances	No	Not Corrected - Repeated
2004-005	ORC 5705.14 illegal transfers	Yes	
2004-006	ORC 5705.38 appropriation adjustments with out approval	Yes	
2004-007	ORC 5705.39 appropriations exceeding estimated resources	Yes	
2004-008	ORC 5705.41(B) expenditures exceeding appropriations	No	Not Corrected - Repeated
2004-009	ORC 5705.36(A)(3) obtaining an amended certificate	Yes	
2004-010	Approval of Student activities	No	Not Corrected - Repeated
2004-011	31 CFR part 205 & 34CFR 80.21 Cash Management	No	Not Corrected - Repeated

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
JUNE 30, 2005**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-001	Will repay overpayment as soon as possible.	Immediately	Edward Williams
2005-002	Complete report on a timely basis.	Immediately	Edward Williams
2005-003	Keep all records as required.	Immediately	Edward Williams
2005-004	To establish the reserve accounts as required.	Immediately	Edward Williams
2005-005	Monitor fund balances more closely.	Immediately	Edward Williams
2005-006	Will monitor expenditures so that don't exceed appropriations.	Immediately	Edward Williams
2005-007	Will perform cash reconciliation on more timely manner.	Immediately	Edward Williams
2005-008	Will enforce the board policies governing student activities.	Immediately	Edward Williams
2005-009	Will comply with cash management.	Immediately	Edward Williams



Mary Taylor, CPA
Auditor of State

JEFFERSON AREA LOCAL SCHOOL DISTRICT

ASHTABULA 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
MAY 6, 2008