



**Auditor of State
Betty Montgomery**

**JFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S 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 Jefferson Area Local School District, Ashtabula County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Jefferson Area Local School District, Ashtabula County, Ohio, as of June 30, 2003, and the respective budgetary comparison for the General Fund thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure 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.



Betty Montgomery
Auditor of State

September 30, 2004

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

The discussion and analysis of the Jefferson Area Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$12,762 which represents a 0.19% increase from 2002.
- General revenues accounted for \$14,670,155 in revenue or 92.19% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,242,588 or 7.81% of total revenues of \$15,912,743.
- The District had \$15,899,981 in expenses related to governmental activities; only \$1,242,588 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,670,155 were adequate to provide for these programs.
- The District's only major governmental fund was the general fund. The general fund had \$14,332,885 in revenues and other financing sources and \$14,181,464 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance increased \$150,240 from \$2,163,641 to \$2,313,881.

Using the Basic Financial Statements (BFS)

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

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities 2003
<u>Assets</u>	
Current and other assets	\$ 6,489,477
Capital assets	5,690,072
Total assets	12,179,549
<u>Liabilities</u>	
Current liabilities	3,446,771
Long-term liabilities	1,839,512
Total liabilities	5,286,283
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,199,324
Restricted	354,467
Unrestricted	1,339,475
Total net assets	\$ 6,893,266

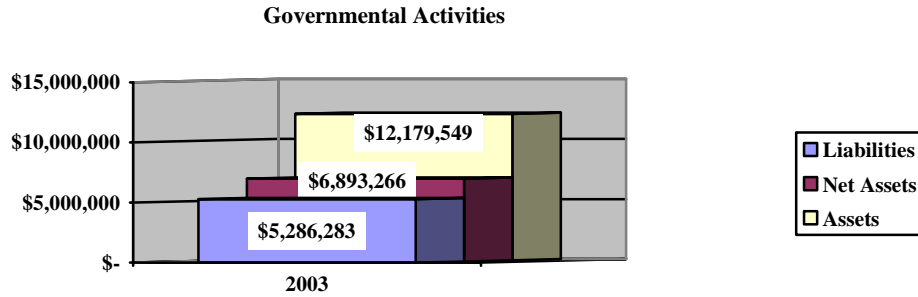
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$6,893,266.

At year-end, capital assets represented 46.72% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$5,199,324. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$354,467, represents resources that are subject to external restriction on how they may be used.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 534,668
Operating grants and contributions	707,920
General revenues:	
Property taxes	5,591,778
Grants and entitlements	8,869,971
Investment earnings	51,099
Other	<u>157,307</u>
Total revenues	<u>15,912,743</u>

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	7,509,466
Special	1,288,141
Vocational	107,171
Other	175
Support services:	
Pupil	1,439,468
Instructional staff	191,890
Board of education	10,494
Administration	1,016,434
Fiscal	434,228
Business	13,558
Operations and maintenance	1,483,428
Pupil transportation	1,079,406
Central	133,101
Operations of non-instructional services	123,304
Food service operations	682,274
Extracurricular activities	363,996
Interest and fiscal charges	<u>23,447</u>
Total expenses	<u>15,899,981</u>
Increase in net assets	<u>\$ 12,762</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$12,762. Total governmental expenses of \$15,899,981 were offset by program revenues of \$1,242,588 and general revenues of \$14,670,155. Program revenues supported 7.82% of the total governmental expenses.

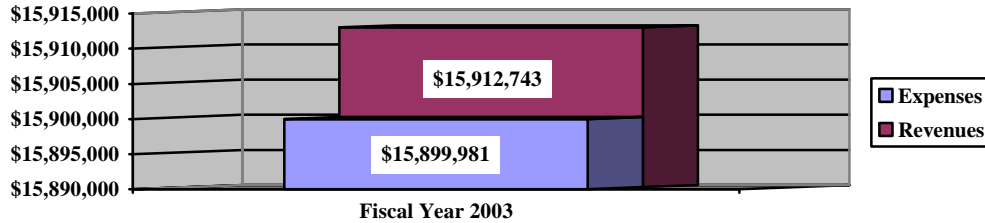
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 90.88% of total governmental revenue. Real estate property is reappraised every six years.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

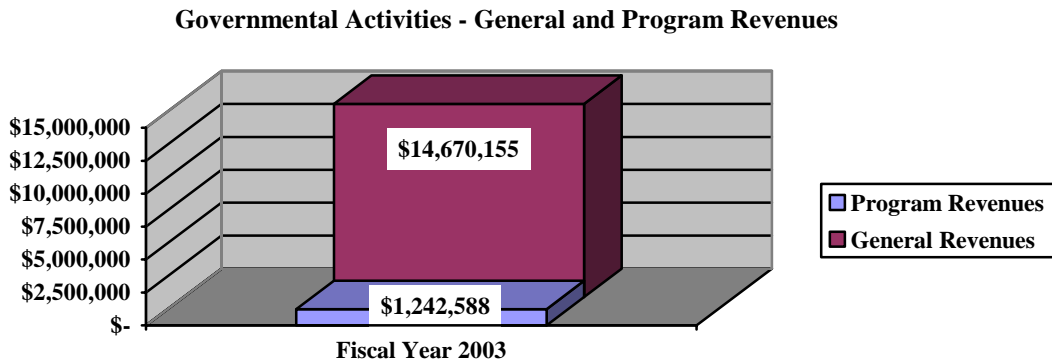
Governmental Activities

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses		
Instruction:		
Regular	\$ 7,509,466	\$ 7,326,566
Special	1,288,141	1,073,326
Vocational	107,171	107,171
Other	175	175
Support services:		
Pupil	1,439,468	1,392,105
Instructional staff	191,890	151,787
Board of education	10,494	8,638
Administration	1,016,434	1,012,305
Fiscal	434,228	426,201
Business	13,558	13,558
Operations and maintenance	1,483,428	1,483,428
Pupil transportation	1,079,406	1,079,406
Central	133,101	106,529
Operations of non-instructional services	123,304	60,100
Food service operations	682,274	82,092
Extracurricular activities	363,996	310,559
Interest and fiscal charges	<u>23,447</u>	<u>23,447</u>
Total expenses	<u>\$ 15,899,981</u>	<u>\$ 14,657,393</u>

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The dependence upon tax and other general revenues for governmental activities is apparent, 95.53% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 92.18%. The District's taxpayers, as a whole, are by far the primary support for District's students. The graph below presents the District's governmental activities revenue for fiscal year 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$2,595,923, which is higher than last year's total of \$2,507,934. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Fund Balance</u> <u>June 30, 2002</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,313,881	\$ 2,163,641	\$ 150,240
Other Governmental	<u>282,042</u>	<u>344,293</u>	<u>(62,251)</u>
Total	<u>\$ 2,595,923</u>	<u>\$ 2,507,934</u>	<u>\$ 87,989</u>

General Fund

The District's general fund's fund balance increased by \$150,240 (after a restatement to the June 30, 2002 fund balance, which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to an increase in tax revenue. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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	2003	Restated 2002	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,244,505	\$ 4,720,553	11.10 %
Tuition	45,135	52,490	(14.01) %
Earnings on investments	51,057	66,219	(22.90) %
Intergovernmental	8,827,602	8,637,458	2.20 %
Other revenues	<u>157,307</u>	<u>55,699</u>	182.42 %
 Total	 <u>\$ 14,325,606</u>	 <u>\$ 13,532,419</u>	 5.86 %
<u>Expenditures</u>			
Instruction	\$ 8,259,026	\$ 7,689,817	7.40 %
Support services	5,431,413	5,032,832	7.92 %
Operation of non-instructional services	48,883	36,729	33.09 %
Extracurricular activities	303,431	280,619	8.13 %
Facilities acquisition and construction	<u>15,917</u>	<u>15,313</u>	3.94 %
 Total	 <u>\$ 14,058,670</u>	 <u>\$ 13,055,310</u>	 7.69 %

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources of \$14,205,926 were increased to \$14,244,443 in the final budget. Actual revenues and other financing sources for fiscal 2003 was \$14,329,768. This represents an \$85,325 increase over the final budgeted revenues.

General fund original appropriations (appropriated expenditures) of \$14,530,428 were increased to \$14,887,743 in the final budget. The actual budget basis expenditures for fiscal year 2003 totaled \$14,138,064, which was \$749,679 less than the final budget appropriations.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$5,690,072 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Land	\$ 540,800	\$ 540,800
Land improvements	252,102	259,168
Building and improvements	3,769,426	3,884,849
Furniture and equipment	633,405	629,061
Vehicles	<u>494,339</u>	<u>497,972</u>
Total	<u>\$ 5,690,072</u>	<u>\$ 5,811,850</u>

Total additions to capital assets for 2003 were \$332,165. Depreciation expense for fiscal 2003 was \$439,274. Overall, capital assets of the District decreased \$121,778 due to depreciation expense and disposals of \$14,669, net of depreciation.

Debt Administration

At June 30, 2003, the District had \$490,748 in notes outstanding. Of this total, \$46,276 is due within one year and \$444,472 is due within greater than one year. The following table summarizes the bonds outstanding.

	Outstanding Debt, at Year End	
	Governmental	Governmental
	Activities	Activities
	<u>2003</u>	<u>2002</u>
Notes payable	\$ 490,748	\$ 537,024
Total	<u>\$ 490,748</u>	<u>\$ 537,024</u>

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%.

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.

At June 30, 2003, the District's overall legal debt margin was \$18,936,574 with an unvoted debt margin of \$209,994.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

Current Financial Related Activities

Over the past several years the District has built and maintained a positive carryover balance year to year. Based upon the Forecast adopted in May 2003, it is anticipated that the District will begin spending more than it takes in fiscal year 2004. Projecting out our carryover balance will be completely spent by the end of fiscal year 2005. This situation will require additional revenues, reductions in expenditures or some combination of the two.

Complicating the situation is our local tradition of seeking limited term operating levies. The District currently has five limited term operating levies in place. These levies are timed in such a way as one of them comes up for renewal each year. Therefore, the District is on the ballot every year just to maintain the current level of local funding. Additionally, the District also has two Permanent Improvement levies that are also limited term.

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.

Contacting the District's Financial Management

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,240,533
Receivables:	
Taxes	4,146,990
Accounts	7,494
Intergovernmental	42,596
Prepayments	32,950
Materials and supplies inventory.	18,914
Capital assets:	
Land	540,800
Depreciable capital assets, net	5,149,272
Total capital assets	<u>5,690,072</u>
 Total assets.	 <u>12,179,549</u>
Liabilities:	
Accounts payable.	115,582
Accrued wages and benefits	1,355,513
Pension obligation payable.	314,416
Intergovernmental payable	67,348
Deferred revenue	1,593,912
Long-term liabilities:	
Due within one year.	126,486
Due in more than one year	1,713,026
 Total liabilities	 <u>5,286,283</u>
Net Assets:	
Invested in capital assets, net of related debt.	5,199,324
Restricted for:	
Endowment:	
Expendable.	37
Nonexpendable.	1,000
Capital projects.	314,422
Debt service	37,086
Other purposes	1,922
Unrestricted	<u>1,339,475</u>
 Total net assets	 <u>\$ 6,893,266</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 7,509,466	\$ 73,629	\$ 109,271		\$ (7,326,566)
Special	1,288,141	-	214,815		(1,073,326)
Vocational	107,171	-	-		(107,171)
Other	175	-	-		(175)
Support services:					
Pupil	1,439,468	-	47,363		(1,392,105)
Instructional staff	191,890	-	40,103		(151,787)
Board of education	10,494	-	1,856		(8,638)
Administration	1,016,434	-	4,129		(1,012,305)
Fiscal	434,228	-	8,027		(426,201)
Business	13,558	-	-		(13,558)
Operations and maintenance	1,483,428	-	-		(1,483,428)
Pupil transportation	1,079,406	-	-		(1,079,406)
Central	133,101	-	26,572		(106,529)
Operation of non-instructional services	123,304	37,000	26,204		(60,100)
Extracurricular activities	363,996	53,437	-		(310,559)
Food service operations	682,274	370,602	229,580		(82,092)
Interest and fiscal charges	23,447	-	-		(23,447)
Total governmental activities	\$ 15,899,981	\$ 534,668	\$ 707,920		(14,657,393)
General Revenues:					
Property taxes levied for:					
					5,233,723
					69,723
					288,332
Grants and entitlements not restricted					
					8,869,971
					51,099
					157,307
Total general revenues					14,670,155
					12,762
					6,880,504
					\$ 6,893,266

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,818,566	\$ 420,045	\$ 2,238,611
Receivables:			
Taxes	3,891,779	255,211	4,146,990
Accounts	6,639	855	7,494
Intergovernmental	-	42,596	42,596
Interfund loans	78,318	-	78,318
Prepayments	32,950	-	32,950
Materials and supplies inventory	1,216	17,698	18,914
Restricted assets:			
Equity in pooled cash and cash equivalents	1,922	-	1,922
Total assets	<u>\$ 5,831,390</u>	<u>\$ 736,405</u>	<u>\$ 6,567,795</u>
Liabilities:			
Accounts payable	\$ 42,730	\$ 72,852	\$ 115,582
Accrued wages and benefits	1,265,696	89,817	1,355,513
Compensated absences payable	46,037	-	46,037
Pension obligation payable	177,998	16,926	194,924
Intergovernmental payable	61,512	5,836	67,348
Interfund loan payable	-	78,318	78,318
Deferred revenue	1,923,536	190,614	2,114,150
Total liabilities	<u>3,517,509</u>	<u>454,363</u>	<u>3,971,872</u>
Fund Balances:			
Reserved for encumbrances	261,441	47,796	309,237
Reserved for materials and supplies inventory	1,216	17,698	18,914
Reserved for property tax unavailable for appropriation	1,968,243	107,193	2,075,436
Reserved for prepayments	32,950	-	32,950
Reserved for endowment	-	1,000	1,000
Reserved for budget stabilization	1,922	-	1,922
Unreserved, undesignated, reported in:			
General fund	48,109	-	48,109
Special revenue funds	-	(101,535)	(101,535)
Debt service fund	-	37,086	37,086
Permanent fund	-	37	37
Capital projects funds	-	172,767	172,767
Total fund balances	<u>2,313,881</u>	<u>282,042</u>	<u>2,595,923</u>
Total liabilities and fund balances	<u>\$ 5,831,390</u>	<u>\$ 736,405</u>	<u>\$ 6,567,795</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$	2,595,923
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,690,072
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	477,642	
Intergovernmental revenue		42,596	
Total			520,238
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable		490,748	
Compensated absences		1,302,727	
Pension obligation payable		119,492	
Total			(1,912,967)
Net assets of governmental activities		\$	6,893,266

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 5,244,505	\$ 359,070	\$ 5,603,575
Tuition.	45,135	26,860	71,995
Earnings on investments.	51,057	611	51,668
Extracurricular.	-	90,437	90,437
Charges for services.	-	371,370	371,370
Other local revenues.	157,307	3,382	160,689
Intergovernmental - state	8,815,006	173,221	8,988,227
Intergovernmental - federal.	12,596	531,387	543,983
Total revenue	<u>14,325,606</u>	<u>1,556,338</u>	<u>15,881,944</u>
Expenditures:			
Current:			
Instruction:			
Regular	7,157,152	220,390	7,377,542
Special.	997,512	277,496	1,275,008
Vocational.	104,362	-	104,362
Other	-	175	175
Support Services:			
Pupil.	1,377,486	49,562	1,427,048
Instructional staff	115,271	59,430	174,701
Board of education	10,479	-	10,479
Administration.	1,009,064	6,790	1,015,854
Fiscal	421,265	13,635	434,900
Business	13,558	-	13,558
Operations and maintenance.	1,341,369	150,321	1,491,690
Pupil transportation	1,029,653	54,574	1,084,227
Central.	113,268	29,719	142,987
Operation of non-instructional services	48,883	73,730	122,613
Extracurricular activities.	303,431	42,171	345,602
Facilities acquisition and construction	15,917	-	15,917
Food service operations.	-	689,542	689,542
Debt service:			
Principal retirement	-	46,276	46,276
Interest and fiscal charges	-	23,447	23,447
Total expenditures	<u>14,058,670</u>	<u>1,737,258</u>	<u>15,795,928</u>
Excess of revenues under expenditures	<u>266,936</u>	<u>(180,920)</u>	<u>86,016</u>
Other financing sources (uses):			
Transfers in.	2,147	159,880	162,027
Transfers out	(122,794)	(39,233)	(162,027)
Proceeds from sale of capital assets.	5,132	-	5,132
Total other financing sources (uses)	<u>(115,515)</u>	<u>120,647</u>	<u>5,132</u>
Net change in fund balances	151,421	(60,273)	91,148
Fund balances at beginning of year			
(restated)	2,163,641	344,293	2,507,934
Decrease in reserve for inventory.	(1,181)	(1,978)	(3,159)
Fund balances at end of year	\$ 2,313,881	\$ 282,042	\$ 2,595,923

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$ 91,148
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$332,165) were lower than depreciation expense (\$439,274) in the current period.	(107,109)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.	(14,669)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.	(3,159)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	30,799
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	46,276
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(30,524)</u>
Change in net assets of governmental activities	<u>\$ 12,762</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

STATEMENT IN REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 5,047,110	\$ 5,058,424	\$ 5,087,787	\$ 29,363
Tuition	42,017	42,112	42,356	244
Earnings on investments	51,931	50,762	51,057	295
Other local revenues	152,850	157,830	157,907	77
Intergovernmental - state	8,741,571	8,764,133	8,815,006	50,873
Intergovernmental - federal	11,904	12,639	12,712	73
Total revenue	<u>14,047,383</u>	<u>14,085,900</u>	<u>14,166,825</u>	<u>80,925</u>
Expenditures:				
Current:				
Instruction:				
Regular	7,323,943	7,481,014	7,049,699	431,315
Special	1,033,263	1,003,009	969,967	33,042
Vocational	144,697	144,697	113,895	30,802
Support Services:				
Pupil	1,270,655	1,353,069	1,307,180	45,889
Instructional staff	145,896	149,186	120,774	28,412
Board of education	11,402	11,702	10,414	1,288
Administration	990,799	1,091,730	1,020,379	71,351
Fiscal	420,508	484,457	468,329	16,128
Business	15,088	15,088	13,942	1,146
Operations and maintenance	1,464,445	1,392,121	1,347,111	45,010
Pupil transportation	1,090,356	1,092,557	1,004,705	87,852
Central	125,777	154,777	145,061	9,716
Operation of non-instructional services	44,140	47,710	46,644	1,066
Extracurricular activities	296,072	305,671	302,936	2,735
Facilities acquisition and construction	19,887	19,887	15,917	3,970
Total expenditures	<u>14,396,928</u>	<u>14,746,675</u>	<u>13,936,953</u>	<u>809,722</u>
Excess of revenues over (under) expenditures	<u>(349,545)</u>	<u>(660,775)</u>	<u>229,872</u>	<u>890,647</u>
Other financing sources (uses):				
Refund of prior year expenditure	69,366	69,366	69,366	-
Transfers in	2,147	2,147	2,147	-
Transfers out	(133,500)	(141,068)	(122,794)	18,274
Advances in	86,298	86,298	86,298	-
Advances out	-	-	(78,317)	(78,317)
Proceeds from sale of capital assets	732	732	5,132	4,400
Total other financing sources (uses)	<u>25,043</u>	<u>17,475</u>	<u>(38,168)</u>	<u>(55,643)</u>
Net change in fund balance	(324,502)	(643,300)	191,704	835,004
Fund balance at beginning of year (restated)	1,030,518	1,030,518	1,030,518	-
Prior year encumbrances appropriated	302,074	302,074	302,074	-
Fund balance at end of year	<u>\$ 1,008,090</u>	<u>\$ 689,292</u>	<u>\$ 1,524,296</u>	<u>\$ 835,004</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 10,899	\$ 44,084
Receivables:		
Accrued interest	6	-
Total assets	10,905	44,084
Liabilities:		
Accounts payable	-	188
Due to students	-	43,896
Total liabilities	-	\$ 44,084
Net Assets:		
Held in trust for scholarships	10,905	
Total net assets	\$ 10,905	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Interest	\$ 304	
Gifts and contributions.	1,233	
	<hr/>	
Total additions.	1,537	
	<hr/>	
Deductions:		
Scholarships awarded	1,200	
	<hr/>	
Change in net assets	337	
Net assets at beginning of year.	10,568	
	<hr/>	
Net assets at end of year	\$ 10,905	
	<hr/> <hr/>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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.

The District is the 261st largest in the State of Ohio (out of approximately 740 public and community school districts) in terms of enrollment. It is staffed by 106 non-certified employees and 135 certified full-time teaching personnel who provide services to 2,180 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 FISCAL YEAR ENDED JUNE 30, 2003**

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 2003. 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 PURCHASING 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.

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.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds or internal service funds.

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 FISCAL YEAR ENDED JUNE 30, 2003**

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 FISCAL YEAR ENDED JUNE 30, 2003**

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, 2003, but which were levied to finance fiscal year 2004 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 2003 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 2003.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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, 2003. 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 2003. 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. Interest revenue credited to the general fund during fiscal 2003 amounted to \$51,057, which includes \$11,189 assigned from other District funds.

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

An analysis of the 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 FISCAL YEAR ENDED JUNE 30, 2003

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 \$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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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 FISCAL YEAR ENDED JUNE 30, 2003**

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, 2003, 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, 2003, 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, materials and supplies inventory, prepayments, property tax revenue unavailable for appropriation, budget stabilization, and endowment. 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 FISCAL YEAR ENDED JUNE 30, 2003**

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. 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 activity between governmental funds are eliminated for reporting on the statement of net assets.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2002	\$ 2,151,461	\$ 395,327	\$ 2,546,788
Fund reclassifications	1,267	(51,034)	(49,767)
Implementation of GASB Interpretation No. 6	<u>10,913</u>	<u>-</u>	<u>10,913</u>
Restated fund balance, June 30, 2002	<u>\$ 2,163,641</u>	<u>\$ 344,293</u>	<u>\$ 2,507,934</u>

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2002	\$ 2,507,934
GASB 34 adjustments:	
Long-term (deferred) assets	489,439
Capital assets	5,811,850
Pension obligations	(137,419)
Long-term liabilities	(1,791,300)
Governmental activities net assets, June 30, 2002	<u>\$ 6,880,504</u>

In addition to the above, the beginning fund balance reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) was restated by \$1,267 from \$1,029,251 to \$1,030,518 due to fund reclassifications required by GASB Statement No. 34.

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Food Service	\$ 66,114
Title I	75,977
Title II-A	1,354

These nonmajor 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.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

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

Deposits: At year-end, the carrying amount of the District's deposits was \$1,892,233 and the bank balance was \$2,060,959. Of the bank balance:

1. \$135,219 was covered by federal depository insurance; and
2. \$1,925,740 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

	Category 3	Carrying Value	Fair Value
Repurchase agreement	\$ 403,283	\$ 403,283	\$ 403,283

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 2,295,516	\$ -
Investments:		
Repurchase agreement	<u>(403,283)</u>	<u>403,283</u>
GASB Statement No. 3	<u>\$ 1,892,233</u>	<u>\$ 403,283</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund loan receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Food Service Fund	\$ 43,561
General	Title I	<u>34,757</u>
Total interfund loans		<u>\$ 78,318</u>

- B.** Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Nonmajor Governmental funds from:	
General fund	\$ 122,794
Nonmajor Governmental funds	37,086
Transfers to General fund from:	
Nonmajor Governmental funds	<u>2,147</u>
Total transfers	<u>\$ 162,027</u>

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.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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 revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2001. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four 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 by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Ashtabula County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 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, 2003 was \$1,968,243 in the general fund and \$107,193 in the Permanent Improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue. The amount available as an advance at June 30, 2002 was \$1,811,525 in the general fund and \$100,152 in the Permanent Improvement fund (a nonmajor governmental fund).

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real property - commercial/industrial	\$ 19,176,580	10.72	\$ 24,680,280	11.75
Real property - residential/agricultural	131,239,580	73.38	156,879,660	74.71
Real property - public utilities	91,940	0.05	81,660	0.04
Personal property - general	17,931,440	10.03	17,765,010	8.46
Personal property - public utilities	<u>10,404,030</u>	<u>5.82</u>	<u>10,587,700</u>	<u>5.04</u>
Total	<u>\$ 178,843,570</u>	<u>100.00</u>	<u>\$ 209,994,310</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 45.47		\$ 47.97	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Property taxes	\$ 4,146,990
Accounts	7,494
Intergovernmental	<u>42,596</u>
Total	<u>\$ 4,197,080</u>

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to the reclassification of asset classes, the reporting of accumulated depreciation in accordance with GASB Statement No. 34, and due to errors and omissions in the amounts previously reported. The following is a summary of the governmental activities capital assets:

	Balance <u>June 30,2002</u>	<u>Adjustments</u>	Restated Balance <u>June 30,2002</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 540,800	\$ -	\$ 540,800
Total capital assets, not being depreciated	<u>540,800</u>	<u>-</u>	<u>540,800</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	655,197	37,690	692,887
Buildings and improvements	6,556,485	434,702	6,991,187
Furniture and equipment	3,088,684	(481,469)	2,607,215
Vehicles	<u>1,369,393</u>	<u>(7,693)</u>	<u>1,361,700</u>
Total capital assets, being depreciated	<u>11,669,759</u>	<u>(16,770)</u>	<u>11,652,989</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(6,381,939)</u>	<u>(6,381,939)</u>
Governmental activities capital assets, net	<u>\$ 12,210,559</u>	<u>\$ (6,398,709)</u>	<u>\$ 5,811,850</u>

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance <u>June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2003</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 540,800	\$ -	\$ -	\$ 540,800
Total capital assets, not being depreciated	<u>540,800</u>	<u>-</u>	<u>-</u>	<u>540,800</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	692,887	19,950	(2,087)	710,750
Buildings and improvements	6,991,187	26,737	(832)	7,017,092
Furniture and equipment	2,607,215	177,985	(255,609)	2,529,591
Vehicles	1,361,700	107,493	(165,120)	1,304,073
Total capital assets, being depreciated	<u>11,652,989</u>	<u>332,165</u>	<u>(423,648)</u>	<u>11,561,506</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(433,719)	(25,288)	359	(458,648)
Buildings and improvements	(3,106,338)	(141,345)	17	(3,247,666)
Furniture and equipment	(1,978,154)	(161,515)	243,483	(1,896,186)
Vehicles	(863,728)	(111,126)	165,120	(809,734)
Total accumulated depreciation	<u>(6,381,939)</u>	<u>(439,274)</u>	<u>408,979</u>	<u>(6,412,234)</u>
Governmental activities capital assets, net	<u>\$ 5,811,850</u>	<u>\$ (107,109)</u>	<u>\$ (14,669)</u>	<u>\$ 5,690,072</u>

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 175,818
Special	15,935
Vocational	4,447
 <u>Support Services:</u>	
Pupil	11,615
Instructional staff	18,730
Board of education	83
Administration	11,319
Fiscal	947
Operations and maintenance	45,187
Pupil transportation	110,058
Central	1,099
Non-instructional services	3,865
Extracurricular activities	29,233
Food service operations	<u>10,938</u>
 Total depreciation expense	 <u>\$ 439,274</u>

NOTE 9 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased from \$1,228,302 to \$1,270,941 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$126,940 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$84,301 from \$1,892,266 to \$1,807,965. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2002</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2003</u>	Amounts Due in <u>One Year</u>
Notes payable	\$ 537,024	\$ -	\$ (46,276)	\$ 490,748	\$ 46,276
Compensated absences	<u>1,270,941</u>	<u>156,809</u>	<u>(78,986)</u>	<u>1,348,764</u>	<u>80,210</u>
 Total governmental activities	 <u>\$ 1,807,965</u>	 <u>\$ 156,809</u>	 <u>\$ (125,262)</u>	 <u>\$ 1,839,512</u>	 <u>\$ 126,486</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.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The annual maturities of the general obligation notes as of June 30, 2003, are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>
2004	\$ 11,276
2005	11,276
2006	11,276
2007	11,276
2008	<u>5,644</u>
Total	<u>\$ 50,748</u>

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%. The annual maturities of the general obligation bonds as of June 30, 2003, and related interest payments are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 35,000	\$ 21,653	\$ 56,653
2005	35,000	19,859	54,859
2006	40,000	17,937	57,937
2007	40,000	15,887	55,887
2008	45,000	13,709	58,709
2009 - 2013	<u>245,000</u>	<u>32,670</u>	<u>277,670</u>
Total	<u>\$ 440,000</u>	<u>\$ 121,715</u>	<u>\$ 561,715</u>

B. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$18,936,574 (including available funds of \$37,086) and an unvoted debt margin of \$209,994.

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.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 10 - COMPENSATED ABSENCES - (Continued)

The classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
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.

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.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). 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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2003, 5.46% was the portion 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 adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$237,544, \$284,280, and \$273,216, respectively; 50.50% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$117,588, represents the unpaid contribution for fiscal year 2003.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$889,811, \$890,016, \$841,296, respectively; 82.50% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$155,728, represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.20 percent of wages paid.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$63,558 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% 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 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$140,579 during the 2003 fiscal year.

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);

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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).

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 191,704
Net adjustment for revenue accruals	158,781
Net adjustment for expenditure accruals	(417,909)
Net adjustment for other sources/uses	(77,347)
Encumbrances	<u>296,192</u>
GAAP basis	<u>\$ 151,421</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

As of the balance sheet date the District was 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.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - CONTINGENCIES - (Continued)

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.

D. Other Related Party Transactions

The District is liable for the Rock Creek Sewer Assessment; this liability is taken directly from tax proceeds by the Ashtabula County Auditor. The assessment was issued in 1989 and matures in 2014. The balance at June 30, 2003 was \$15,180.

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, 2003, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2002	\$ (70,768)	\$ -	\$ 1,922
Current year set-aside requirement	289,711	289,771	-
Current year offsets	(118,141)	(164,165)	-
Qualifying disbursements	<u>(260,387)</u>	<u>(316,387)</u>	<u>-</u>
Total	<u>\$ (159,585)</u>	<u>\$ (190,781)</u>	<u>\$ 1,922</u>
Cash balance carried forward to FY 2004	<u>\$ (159,585)</u>	<u>\$ -</u>	<u>\$ 1,922</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.

JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through The Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$28,829		\$28,829
National School Breakfast Program	05-PU-2002 05-PU-2003	10.553	\$8,315 33,130 41,445		\$8,315 33,130 41,445	
National School Lunch Program	LL-P4-2002 LL-P4-2003	10.555	37,867 137,912 175,779		37,867 137,912 175,779	
Total U.S. Department of Agriculture -- Nutrition Cluster			217,224	28,829	217,224	28,829
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 02 C1-S1 03	84.010			28,928 243,517	
Subtotal - Title 1 School Subsidy			208,760 208,760		272,445	
Safe and Drug Free Schools Grant	DR-S1-2003	84.186	9,960		8,133	
Title II - Professional Development	MS-S1-2002	84.281	50		125	
Innovative Education Program Strategies Chapter 2 Subsidy	CS-S1 2003	84.298	2,304		8,293	
Title II-D, Technology	TJS1-2003	84.318	3,430		380	
Title VI-R - Class Size Reduction Subsidy	CR-S1 02	84.340			20,424	
Assistive Technology Infusion Project	ATS3-2002	84.352	5,124		3,110	
Title II-A, Improving Teacher Quality	TRS1-2003	84.367	42,503		28,711	
<i>Passed Through The Ashtabula Joint Vocational School</i>						
Vocational Education - Basic Grants to States		84.048	2,840		2,840	
Total -- U.S. Department of Education			274,971		344,461	
OFFICE OF LIBRARY SERVICES, INSTITUTE OF LIBRARY SERVICES, NATIONAL FOUNDATION OF THE ARTS AND HUMANITIES						
<i>Passed Through The State Library of Ohio:</i>						
Library Services and Technology Act (LSTA) Mini Grant		45.310	22,151		31,909	
Totals			\$ 514,346	\$ 28,829	\$ 593,594	\$ 28,829

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 THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B- CHILD NUTRITION CLUSTER

Program regulations do not require the School 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.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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, Ashtabula County, Ohio (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2004, wherein we noted the District adopted Governmental Accounting Standards Board Statement Number 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

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

Betty Montgomery
Auditor of State

September 30, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND 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, Ashtabula County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

September 30, 2004

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT
ASHTABULA COUNTY
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Program (list):	Nutrition Cluster: Food Distribution – CFDA No. 10.550 National School Breakfast Program – CFDA No. 10.553 National School Lunch Program – CFDA No. 10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: > \$100,000
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**JEFFERSON AREA LOCAL 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
NOVEMBER 9, 2004**