



**Auditor of State
Betty Montgomery**

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Jefferson Local School District
Madison County
906 West Main Street
West Jefferson, Ohio 43162

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson Local School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2004, 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, each major fund, and the aggregate remaining fund information of the Jefferson Local School District, Madison County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund 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, 2004, 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 March 1, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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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.

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

Betty Montgomery
Auditor of State

March 1, 2005

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The management's discussion and analysis of the Jefferson 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, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$12,065,312 which represents a 187.99% increase from 2003. The increase is primarily due to an OSFG grant awarded in fiscal 2004 (See Notes 8 and 11 to the basic financial statements).
- General revenues accounted for \$20,734,631 in revenue or 93.36% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,473,574 or 6.64% of total revenues of \$22,208,205.
- The District had \$10,142,893 in expenses related to governmental activities; \$1,473,574 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 \$20,734,631 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$9,111,103 in revenues and other financing sources and \$8,351,850 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance increased \$759,253 from \$3,626,426 to \$4,385,679.
- The debt service fund, had \$1,047,826 in revenues and other financing sources and \$387,397 in expenditures. During fiscal year 2004, the debt service fund's fund balance increased \$660,429.
- The classroom facilities fund, had \$13,454,462 in revenues and other financing sources and \$35,080 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance increased \$13,419,382.

Using these Basic Financial Statements

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General fund, Debt Service fund and Classroom Facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund, accounts for medical, vision, dental and prescription benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

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 or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 25 and 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-58 of this report.

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 2004.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

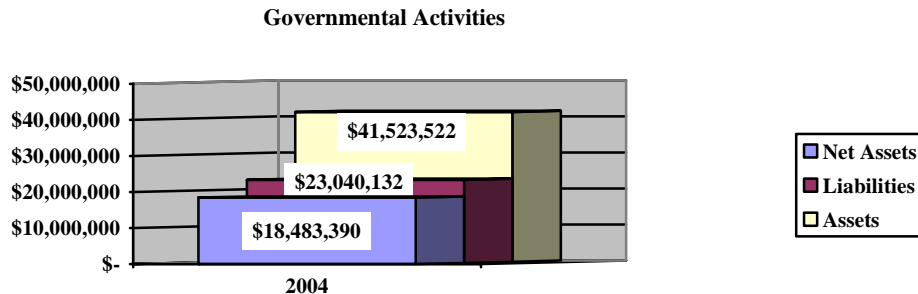
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 38,257,774
Capital assets, net	<u>3,265,748</u>
Total assets	<u>41,523,522</u>
<u>Liabilities</u>	
Current liabilities	4,584,090
Long-term liabilities	<u>18,456,042</u>
Total liabilities	<u>23,040,132</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	2,952,090
Restricted	29,005,256
Unrestricted	<u>(13,473,956)</u>
Total net assets	<u>\$ 18,483,390</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$18,483,390. Of this total, \$29,005,256 is restricted in use.

At year-end, capital assets represented 7.86% 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, 2004, were \$2,952,090. 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, \$29,005,256, represents resources that are subject to external restriction on how they may be used.



**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The table below shows the change in net assets for fiscal year 2004. 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 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 889,947
Operating grants and contributions	583,627
General revenues:	
Property taxes	4,471,691
School District income tax	630,097
Grants and entitlements	15,410,819
Investment earnings	85,169
Other	<u>136,855</u>
Total revenues	<u>22,208,205</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 4,276,906
Special	1,070,688
Vocational	910
Support services:	
Pupil	460,907
Instructional staff	478,988
Board of education	30,054
Administration	914,997
Fiscal	353,615
Business	4,073
Operations and maintenance	1,000,328
Pupil transportation	391,177
Central	220,675
Operations of non-instructional services	5,280
Food service operations	433,192
Extracurricular activities	330,450
Interest and fiscal charges	<u>170,653</u>
Total expenses	<u>10,142,893</u>
Change in net assets	<u>\$ 12,065,312</u>

Governmental Activities

Net assets of the District's governmental activities increased \$12,065,312. Total governmental expenses of \$10,142,893 were offset by program revenues of \$1,473,574 and general revenues of \$20,734,631. Program revenues supported 14.53% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, school district income taxes and grants and entitlements. These revenue sources represent 92.36% of total governmental revenue.

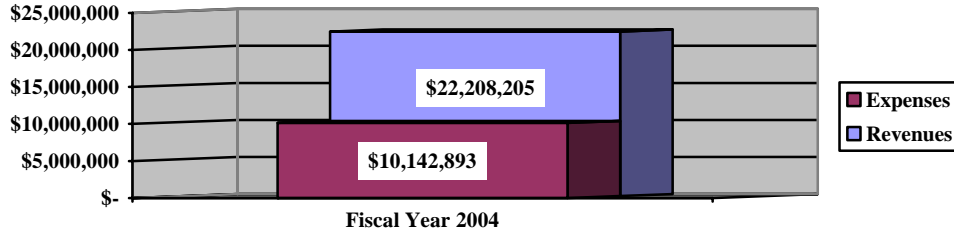
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,348,504 or 52.73% of total governmental expenses for fiscal 2004.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

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 2003 have not been presented since they are not available.

Governmental Activities

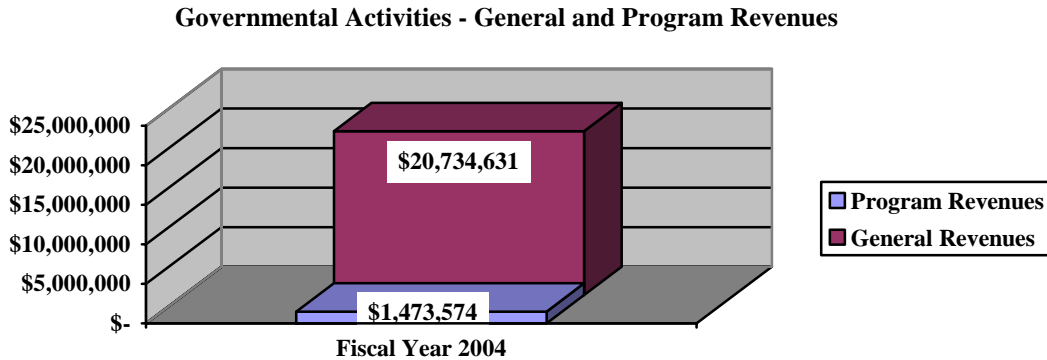
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 4,276,906	\$ 3,760,727
Special	1,070,688	785,865
Vocational	910	910
Support services:		
Pupil	460,907	430,145
Instructional staff	478,988	443,127
Board of education	30,054	19,290
Administration	914,997	914,997
Fiscal	353,615	353,615
Business	4,073	4,073
Operations and maintenance	1,000,328	999,878
Pupil transportation	391,177	391,177
Central	220,675	203,675
Operations of non-instructional services	5,280	5,280
Food service operations	433,192	17,023
Extracurricular activities	330,450	168,884
Interest and fiscal charges	<u>170,653</u>	<u>170,653</u>
Total expenses	\$ <u>10,142,893</u>	\$ <u>8,669,319</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 85.02% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.47%. 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 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$22,258,805, which is higher than last year's total of \$3,787,979. The June 30, 2003 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, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 4,385,679	\$ 3,626,426	\$ 759,253	20.94 %
Debt Service	660,429	-	660,429	100.00 %
Classroom Facilities	13,419,382	-	13,419,382	100.00 %
Other Governmental	<u>3,793,315</u>	<u>161,553</u>	<u>3,631,762</u>	2,248.03 %
Total	<u>\$22,258,805</u>	<u>\$ 3,787,979</u>	<u>\$ 18,470,826</u>	487.62 %

General Fund

The District's general fund balance increased \$759,253 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceed expenditures for fiscal year 2004 by \$957,238. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities of the general fund.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

	2004 <u>Amount</u>	2003 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,299,715	\$ 3,788,091	\$ 511,624	13.51 %
Tuition	374,713	227,052	147,661	65.03 %
Earnings on investments	20,426	89,710	(69,284)	(77.23) %
Intergovernmental	4,257,131	4,152,708	104,423	2.51 %
Other revenues	<u>145,904</u>	<u>48,671</u>	<u>97,233</u>	199.78 %
 Total	 <u>\$ 9,097,889</u>	 <u>\$ 8,306,232</u>	 <u>\$ 791,657</u>	 9.53 %
<u>Expenditures</u>				
Instruction	\$ 4,613,076	\$ 4,537,910	\$ 75,166	1.66 %
Support services	3,281,724	3,050,129	231,595	7.59 %
Extracurricular activities	225,700	198,228	27,472	13.86 %
Facilities acquisition and construction	15,018	8,600	6,418	74.63 %
Debt service	<u>5,133</u>	<u>-</u>	<u>5,133</u>	100.00 %
 Total	 <u>\$ 8,140,651</u>	 <u>\$ 7,794,867</u>	 <u>\$ 345,784</u>	 4.72 %

Debt Service Fund

The debt service fund, had \$1,047,826 in revenues and other financing sources and \$387,397 in expenditures and other financing uses. During fiscal year 2004, the debt service fund's fund balance increased \$660,429 due to the passage of a bond levy for the District's portion of the Ohio School Facilities Project.

Classroom Facilities Fund

The classroom facilities fund, had \$13,454,462 in revenues and other financing sources and \$35,080 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance increased \$13,419,382 due to the transfer of bond proceeds to begin the school facilities project. Actual construction had not yet begun during fiscal year 2004.

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 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,271,137 and final budgeted revenues and other financing sources were \$9,015,951. Actual revenues and other financing sources for fiscal 2004 was \$9,384,652. This represents a \$368,701 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$8,780,136 were decreased to \$8,710,686 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$8,570,861, which was \$139,825 below the final budget appropriations.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$3,265,748 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 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 256,030	\$ 256,030
Land improvements	395,210	423,991
Building and improvements	839,803	899,015
Furniture and equipment	1,400,074	1,525,586
Vehicles	374,631	360,222
 Total	 \$ 3,265,748	 \$ 3,464,844

The overall decrease in capital assets of \$199,096 is due to depreciation expense of \$286,378 exceeding capital outlay of \$106,536 in the current fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$4,136 in asbestos removal notes, \$306,000 in energy conservation notes outstanding, \$14,600,000 in general obligation bonds and \$2,300,000 in bond anticipation notes. Of this total, \$2,555,136 is due within one year and \$16,904,136 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	
	2004	2003
Asbestos removal notes	\$ 4,136	\$ 12,404
Energy conservation bonds	306,000	-
General obligation bonds	14,790,538	-
Bond anticipation notes	2,300,000	-
 Total	 \$ 17,400,674	 \$ 12,404

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Current Financial Related Activities

The District has committed itself to educational and financial excellence for many years. The District uses a five-year forecast of the general fund, which is closely monitored by the Board of Education and administration, as a tool to manage resources effectively.

As most of the financial information in this report shows, the District relies heavily on its taxpayers. Our communities' support was recently measured by the passage of a \$16.9 million bond issue in November 2003 and the renewal of the 0.5% income tax for operating purposes in March 2004. The support of these two issues demonstrates the strong belief of community members that their schools are one of their highest priorities.

The District has communicated to its community the reliance upon their support for the majority of its operations, and that it will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan.

One major challenge facing the District is the uncertainty surrounding state funding in Ohio. On March 24, 1997 the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County, where the case originated, reviewed the new laws and on February 26, 1999 determined they were not sufficient to correct the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. In May 2000, the Supreme Court ruled that the State of Ohio had not done enough to comply with the original order found in the original case. The Court gave the State of Ohio until June 15, 2001 to correct their method of funding schools.

The school funding system was declared unconstitutional again in September 2001, and most recently in December 2002. The Supreme Court has again directed the General Assembly to enact a school funding system that is "thorough and efficient." The latest ruling occurred on March 16, 2003. The Supreme Court has foreclosed further proceedings in the case, essentially ending the DeRolph case from their perspective.

As of this time, the District is unable to determine what effect, if any, ongoing litigation will have on its future State funding and on its financial operations.

The District is committed to living within its financial means, and working with the community it serves in order to garner adequate resources to support a quality educational program.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. David Coffman, CPA, Treasurer, Jefferson Local School District, 906 West Main Street, West Jefferson, Ohio 43162-1144.

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**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 11,929,252
Investments.	9,705,835
Receivables:	
Taxes	5,156,694
Accounts	51,532
Intergovernmental	11,123,704
Accrued interest	58,890
Prepayments	23,977
Materials and supplies inventory	17,352
Unamortized bond issue costs	190,538
Capital assets:	
Land	256,030
Depreciable capital assets, net	3,009,718
Total capital assets, net.	3,265,748
 Total assets.	 41,523,522
 Liabilities:	
Accounts payable.	53,677
Accrued wages and benefits	673,050
Pension obligation payable.	257,319
Intergovernmental payable	58,051
Deferred revenue	3,400,512
Claims payable	85,879
Accrued interest payable	55,602
Long-term liabilities:	
Due within one year.	2,776,742
Due in more than one year	15,679,300
Total liabilities.	23,040,132
 Net Assets:	
Invested in capital assets, net	
of related debt.	2,952,090
Restricted for:	
Capital projects	28,167,272
Debt service.	618,627
Other purposes	219,357
Unrestricted (deficit)	(13,473,956)
 Total net assets	 \$ 18,483,390

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 4,276,906	\$ 447,603	\$ 68,576	\$ (3,760,727)
Special	1,070,688	-	284,823	(785,865)
Vocational	910	-	-	(910)
Support services:				
Pupil.	460,907	-	30,762	(430,145)
Instructional staff	478,988	-	35,861	(443,127)
Board of education	30,054	-	10,764	(19,290)
Administration.	914,997	-	-	(914,997)
Fiscal.	353,615	-	-	(353,615)
Business.	4,073	-	-	(4,073)
Operations and maintenance	1,000,328	450	-	(999,878)
Pupil transportation.	391,177	-	-	(391,177)
Central	220,675	-	17,000	(203,675)
Operation of non-instructional services	5,280	-	-	(5,280)
Food service operations	433,192	280,328	135,841	(17,023)
Extracurricular activities.	330,450	161,566	-	(168,884)
Interest and fiscal charges	170,653	-	-	(170,653)
Total governmental activities	\$ 10,142,893	\$ 889,947	\$ 583,627	(8,669,319)

General Revenues:

Property taxes levied for:	
General purposes	3,621,121
Classroom maintenance.	47,576
Debt service.	725,730
Capital projects	77,264
School district income tax	630,097
Grants and entitlements not restricted to specific programs:	
Operating	4,312,684
Capital	11,098,135
Investment earnings	85,169
Miscellaneous	136,855
Total general revenues	20,734,631
Change in net assets	12,065,312
Net assets at beginning of year (restated).	6,418,078
Net assets at end of year.	\$ 18,483,390

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 3,767,749	\$ 366,728	\$ 5,722,118	\$ 1,845,120	\$ 11,701,715
Investments	-	-	7,704,492	2,001,343	9,705,835
Receivables:					
Taxes	4,043,284	1,046,300	-	67,110	5,156,694
Accounts	14,084	8,931	-	1,516	24,531
Intergovernmental	-	-	11,082,110	41,594	11,123,704
Accrued interest	17,283	-	17,125	24,482	58,890
Interfund receivable	13,900	-	-	-	13,900
Prepayments	23,977	-	-	-	23,977
Materials and supplies inventory	7,736	-	-	9,616	17,352
Restricted assets:					
Equity in pooled cash and cash equivalents	135,306	-	-	-	135,306
Total assets	<u>\$ 8,023,319</u>	<u>\$ 1,421,959</u>	<u>\$ 24,525,845</u>	<u>\$ 3,990,781</u>	<u>\$ 37,961,904</u>
Liabilities:					
Accounts payable	\$ 34,704	\$ -	\$ 7,228	\$ 11,745	\$ 53,677
Accrued wages and benefits	634,614	-	-	38,436	673,050
Compensated absences payable	160,714	-	-	-	160,714
Pension obligation payable	119,489	-	-	5,983	125,472
Intergovernmental payable	35,363	530	-	22,158	58,051
Interfund loans payable	-	-	-	13,900	13,900
Deferred revenue	2,652,756	761,000	11,099,235	105,244	14,618,235
Total liabilities	<u>3,637,640</u>	<u>761,530</u>	<u>11,106,463</u>	<u>197,466</u>	<u>15,703,099</u>
Fund Balances:					
Reserved for encumbrances	70,270	2,000	813,220	329,263	1,214,753
Reserved for materials and supplies inventory	7,736	-	-	9,616	17,352
Reserved for prepayments	23,977	-	-	-	23,977
Reserved for property tax unavailable for appropriation	1,098,500	285,300	-	18,700	1,402,500
Reserved for debt service	-	373,129	-	-	373,129
Reserved for budget stabilization	75,000	-	-	-	75,000
Reserved for textbooks/instructional supplies	60,306	-	-	-	60,306
Unreserved, undesignated, reported in:					
General fund	3,049,890	-	-	-	3,049,890
Special revenue funds	-	-	-	116,705	116,705
Capital projects funds	-	-	12,606,162	3,319,031	15,925,193
Total fund balances	<u>4,385,679</u>	<u>660,429</u>	<u>13,419,382</u>	<u>3,793,315</u>	<u>22,258,805</u>
Total liabilities and fund balances	<u>\$ 8,023,319</u>	<u>\$ 1,421,959</u>	<u>\$ 24,525,845</u>	<u>\$ 3,990,781</u>	<u>\$ 37,961,904</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total governmental fund balances		\$	22,258,805
<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.			3,265,748
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	49,660	
Intergovernmental revenue		11,114,462	
Accrued interest		53,601	
Total			11,217,723
Unamortized bond issuance costs are not recognized in the funds governmental activities on the statement of net assets.			190,538
Unamortized premiums on bond issuance is not recognized in the funds.			(190,538)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(886,996)	
Pension obligation payable		(131,847)	
Asbestos loan payable		(4,136)	
Energy conservation bonds payable		(306,000)	
Bond anticipation notes payable		(2,300,000)	
General obligation bonds payable		(14,600,000)	
Capital lease obligation payable		(7,658)	
Accrued interest payable		(55,602)	
Total			(18,292,239)
An internal service fund is used by management to charge the costs of self-insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			33,353
Net assets of governmental activities		\$	18,483,390

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 4,299,715	\$ 711,930	\$ -	\$ 131,134	\$ 5,142,779
Tuition.	374,713	-	-	-	374,713
Charges for services.	-	-	-	280,328	280,328
Earnings on investments.	20,426	-	4,462	6,680	31,568
Extracurricular.	-	-	-	160,841	160,841
Classroom materials and fees	-	-	-	53,747	53,747
Other local revenues.	145,904	8,931	-	6,538	161,373
Other revenue	-	-	-	5,000	5,000
Intergovernmental - State.	4,256,520	52,125	-	74,410	4,383,055
Intergovernmental - Federal	611	-	-	487,118	487,729
Total revenue	<u>9,097,889</u>	<u>772,986</u>	<u>4,462</u>	<u>1,205,796</u>	<u>11,081,133</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,825,442	-	-	249,351	4,074,793
Special.	786,724	-	-	290,248	1,076,972
Vocational.	910	-	-	-	910
Support services:					
Pupil.	313,885	-	-	105,745	419,630
Instructional staff	412,606	-	-	45,170	457,776
Board of education	30,256	-	-	-	30,256
Administration.	825,036	-	-	4,140	829,176
Fiscal	325,461	9,953	-	620	336,034
Business	20,453	-	-	-	20,453
Operations and maintenance.	788,281	-	-	18,613	806,894
Pupil transportation	363,257	-	-	-	363,257
Central.	202,489	-	-	17,014	219,503
Operation of non-instructional services	-	-	-	5,280	5,280
Food service operations	-	-	-	409,547	409,547
Extracurricular activities.	225,700	-	-	103,247	328,947
Facilities acquisition and construction	15,018	-	35,080	159,293	209,391
Debt service:					
Principal retirement	4,407	59,268	-	-	63,675
Interest and fiscal charges	726	127,638	-	-	128,364
Bond issuance costs	-	190,538	-	-	190,538
Total expenditures	<u>8,140,651</u>	<u>387,397</u>	<u>35,080</u>	<u>1,408,268</u>	<u>9,971,396</u>
Excess of revenues over (under) expenditures.	<u>957,238</u>	<u>385,589</u>	<u>(30,618)</u>	<u>(202,472)</u>	<u>1,109,737</u>
Other financing sources (uses):					
Transfers in	-	70,989	13,450,000	25,210	13,546,199
Transfers (out).	(211,199)	-	-	(13,450,000)	(13,661,199)
Proceeds from sale of capital assets	13,214	-	-	2,024	15,238
Proceeds from sale of notes	-	-	-	2,657,000	2,657,000
Proceeds from sale of bonds	-	-	-	14,600,000	14,600,000
Premium on sale of notes/bonds.	-	203,851	-	-	203,851
Total other financing sources (uses)	<u>(197,985)</u>	<u>274,840</u>	<u>13,450,000</u>	<u>3,834,234</u>	<u>17,361,089</u>
Net change in fund balances	759,253	660,429	13,419,382	3,631,762	18,470,826
Fund balances at beginning of year (restated)					
	<u>3,626,426</u>	<u>-</u>	<u>-</u>	<u>161,553</u>	<u>3,787,979</u>
Fund balances at end of year.					
	<u>\$ 4,385,679</u>	<u>\$ 660,429</u>	<u>\$ 13,419,382</u>	<u>\$ 3,793,315</u>	<u>\$ 22,258,805</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**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, 2004**

Net change in fund balances - total governmental funds \$ 18,470,826

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$286,378) exceeds capital outlays (\$106,536) in the current period. (179,842)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (19,254)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 11,127,072

Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 63,675

Proceeds of notes and bonds are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (17,257,000)

Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. (203,851)

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. 190,538

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on notes and bonds. (42,289)

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. (9,751)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues (including \$115,000 transfer) are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (74,812)

Change in net assets of governmental activities \$ 12,065,312

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,021,414	\$ 4,021,414	\$ 4,185,866	\$ 164,452
Tuition	494,488	359,991	374,713	14,722
Earnings on investments	86,806	63,196	65,780	2,584
Other local revenues	167,306	121,800	126,781	4,981
Intergovernmental - State	4,006,267	4,089,291	4,256,520	167,229
Intergovernmental - Federal	806	587	611	24
Total revenues	<u>8,777,087</u>	<u>8,656,279</u>	<u>9,010,271</u>	<u>353,992</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,963,001	3,931,655	3,868,544	63,111
Special	841,049	834,397	821,002	13,395
Vocational	11,028	10,941	10,765	176
Support services:				
Pupil	343,869	341,148	335,672	5,476
Instructional staff	403,647	400,454	394,026	6,428
Board of education	39,396	39,084	38,457	627
Administration	880,507	873,542	859,520	14,022
Fiscal	342,776	340,065	334,606	5,459
Business	21,347	21,178	20,838	340
Operations and maintenance	826,447	819,910	806,749	13,161
Pupil transportation	392,479	389,374	383,124	6,250
Central	230,161	228,340	224,675	3,665
Extracurricular activities	235,078	233,219	229,475	3,744
Facilities acquisition and construction	18,657	18,509	18,212	297
Total expenditures	<u>8,549,442</u>	<u>8,481,816</u>	<u>8,345,665</u>	<u>136,151</u>
Excess of revenues over (under) expenditures	<u>227,645</u>	<u>174,463</u>	<u>664,606</u>	<u>490,143</u>
Other financing sources (uses):				
Transfers in	6,841	4,980	5,184	204
Transfers (out)	(216,455)	(214,743)	(211,296)	3,447
Advances in	459,692	334,659	348,345	13,686
Advances (out)	(14,239)	(14,127)	(13,900)	227
Refund of prior year expenditure	10,079	7,338	7,638	300
Proceeds from sale of capital assets	17,438	12,695	13,214	519
Total other financing sources (uses)	<u>263,356</u>	<u>130,802</u>	<u>149,185</u>	<u>18,383</u>
Net change in fund balance	491,001	305,265	813,791	508,526
Fund balance at beginning of year (restated)	2,808,646	2,808,646	2,808,646	-
Prior year encumbrances appropriated	181,062	181,062	181,062	-
Fund balance at end of year	<u>\$ 3,480,709</u>	<u>\$ 3,294,973</u>	<u>\$ 3,803,499</u>	<u>\$ 508,526</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004**

	Governmental Activities - Internal Service Fund
Assets:	
Current:	
Equity in pooled cash and cash equivalents	\$ 92,231
Receivables:	
Accounts	27,001
Total assets.	<u>\$ 119,232</u>
 Liabilities:	
Current:	
Claims payable	<u>\$ 85,879</u>
Total liabilities	<u>85,879</u>
 Net assets:	
Unrestricted.	<u>33,353</u>
Total net assets	<u>\$ 33,353</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 476,507
	476,507
Operating expenses:	
Purchased services	160,123
Claims expense	506,196
	666,319
Total operating expenses	666,319
Loss before transfers	(189,812)
Transfer in	115,000
	(74,812)
Change in net assets.	(74,812)
Net assets at beginning of year	108,165
Net assets at end of year.	\$ 33,353

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

		Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash receipts from charges for services	\$	449,506
Cash payments for purchased services		(160,123)
Cash payments for claims		(478,962)
		(189,579)
Net cash used in operating activities		(189,579)
Cash flows from noncapital financing activities:		
Cash received from transfers in		115,000
		115,000
Net cash provided by noncapital financing activities.		115,000
Net decrease in cash and cash equivalents.		(74,579)
Cash and cash equivalents at beginning of year		166,810
Cash and cash equivalents at end of year.	\$	92,231
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(189,812)
Changes in assets and liabilities:		
Increase in accounts receivable		(27,001)
Increase in claims payable.		27,234
		(189,579)
Net cash used in operating activities	\$	(189,579)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 298,222	\$ 49,568
Total assets.	<u>298,222</u>	<u>\$ 49,568</u>
Liabilities:		
Accounts payable.	-	\$ 785
Due to students	-	48,783
Total liabilities	<u>-</u>	<u>\$ 49,568</u>
Net Assets:		
Held in trust for scholarships	<u>298,222</u>	
Total net assets	<u>\$ 298,222</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2,729
Gifts and contributions	9,210
Total additions.	11,939
Deductions:	
Scholarships awarded	13,248
Change in net assets	(1,309)
Net assets at beginning of year.	299,531
Net assets at end of year	\$ 298,222

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Jefferson Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is the 415th largest in the State of Ohio among 613 public school districts in terms of enrollment. It is staffed by 57 non-certificated employees and 82 certificated full-time teaching personnel who provide services to 1,306 students and other community members. The District currently operates 3 instructional buildings and 1 administrative building.

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 and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other 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, foods service, community services 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 either (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 organizations 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 LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Education Council (MEC)

MEC is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent.

Central Ohio Joint Vocational School

The Central Ohio Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Central Ohio Joint Vocational School, Treasurer, at 7877 U.S. Route 42 NE, Plain City, Ohio 43064.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. 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.

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 are the District's major governmental funds:

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting (Continued)

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.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the repayment of debt.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for financial resources and expenditures related to the school facilities construction project.

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; (b) food service operations, and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

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. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical, vision and dental benefits to employees.

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 fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus (Continued)

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

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. Proprietary and 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 and income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

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, 2004, but which were levied to finance fiscal year 2005 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 received 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting (Continued)

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 2004 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 Madison 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 original and final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, 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, function and object 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 total of any fund appropriation 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets (Continued)

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, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and 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 fund level.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to STAR Ohio, repurchase agreements, and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

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, classroom facilities, other nonmajor governmental funds, and the private purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$20,426, which includes \$11,330 assigned from other funds.

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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 consumption method.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$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	10 - 20 years
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 - 15 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

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, 2004, 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 at least 50 years of age with 10 years of service or any age with at least 15 years of service, 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, 2004, 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, the current portion of unpaid compensated absences is the amount due for payment during the current year. 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.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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. Bonds are recognized as a liability on the fund financial statements when due.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

P. Estimates

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and budget stabilization reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 18.

R. Interfund Activity

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

S. 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 2004.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, 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. 39, "Determining Whether Certain Organizations are Component Units", 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, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 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. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

A. Changes in Accounting Principles and Restatement of Fund Balance (Continued)

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.

GASB Statement No. 34 creates new basic financial statement for reporting on the District's financial activities. The financial statements now include the government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

The beginning net asset amount for governmental activities reflect the change in fund balance for governmental funds at June 30, 2003, based on the guidance provided in Statement No. 34 and 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, 2003.

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:

	General	Debt Service	Classroom Facilities	Nonmajor	Total
Fund balance June 30, 2003	\$ 3,712,182	\$ -	\$ -	\$ 152,041	\$ 3,864,223
Fund reclassifications	43,726	-	-	9,512	53,238
Implementation of GASB Interpretation No. 6	(129,482)	-	-	-	(129,482)
Restated fund balance, June 30, 2003	\$ 3,626,426	\$ -	\$ -	\$ 161,553	\$ 3,787,979

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

	Total
Restated fund balance, June 30, 2003	\$ 3,787,979
GASB 34 adjustments:	
Long-term (deferred) assets	90,651
Capital assets	3,464,844
Pension obligation	(76,386)
Long-term liabilities	(957,175)
Internal service fund	108,165
Governmental activities net assets, June 30, 2003	\$ 6,418,078

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
EMIS	\$ 14
Entry Year Grant	19
Ohio Reads	22
Summer Intervention	4,761
Title VI	7
Title II-A	2,988

These 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 results from adjustments for accrued liabilities.

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 financial statements 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 five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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.

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 (including Repurchase Agreements) and Reverse Repurchase Agreements".

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$8,288,664 and the bank balance was \$8,214,426. Of the bank balance:

1. \$130,000 was covered by federal depository insurance deposited with the District; and
2. \$8,084,426 was uninsured and unregistered 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. 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. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreement	\$ -	\$ 206,047	\$ 206,047	\$ 206,047
Federal securities	<u>13,472,091</u>	<u>-</u>	13,472,091	13,472,091
	<u>\$ 13,472,091</u>	<u>\$ 206,047</u>		
Investment in STAR Ohio			<u>16,075</u>	<u>16,075</u>
Total investments			<u>\$ 13,694,213</u>	<u>\$ 13,694,213</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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	\$ 12,277,042	\$ 9,705,835
Investments of the cash management pool:		
Federal securities	(3,766,256)	3,766,256
Repurchase agreement	(206,047)	206,047
Investment in STAR Ohio	<u>(16,075)</u>	<u>16,075</u>
GASB Statement No. 3	<u>\$ 8,288,664</u>	<u>\$ 13,694,213</u>

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 13,900

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

5. INTERFUND TRANSACTIONS - (Continued)

B. Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Other Governmental funds from:	
General Fund	\$ 25,210
Transfers to Employee Benefits Self-Insurance fund from:	
General fund	115,000
Transfers to Classroom Facilities fund from:	
Other Governmental Funds	13,450,000
Transfers to Debt Service fund from:	
General fund	<u>70,989</u>
Total transfers	<u>\$ 13,661,199</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, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) move debt proceeds to the fund which is required to expend them.

The purpose of the transfer from the Other Governmental Funds to the Classroom Facilities Fund is to move bond proceeds collected prior to the approval of the Classroom Facilities project agreement.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

6. PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable 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 Madison 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, 2004, are available to finance fiscal year 2004 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, 2004 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, 2004 was \$1,098,500 in the general fund, \$285,300 in the debt service fund, and \$18,700 in the other governmental funds. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$1,047,000 in the general fund and \$88,000 in the other governmental funds.

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.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 110,010,160	81.52	\$ 114,712,940	82.94
Tangible personal property	<u>24,922,440</u>	<u>18.48</u>	<u>23,598,110</u>	<u>17.06</u>
Total	<u>\$ 134,932,600</u>	<u>100.00</u>	<u>\$ 138,311,050</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 34.60		\$ 39.38	

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

7. SCHOOL DISTRICT INCOME TAX

The District currently benefits from a 1/2% income tax, which is assessed on all residents of the District. In 2004, the District income tax generated \$630,097 in revenue. The District apportions all the proceeds to the general fund.

8. RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 5,156,694
Accounts	51,532
Accrued interest	58,890
Intergovernmental	<u>11,123,704</u>
Total	<u>\$ 16,390,820</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year except for the OSFC grant which will be collected over a period of 2 years.

9. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to the implementation of GASB Statement No. 34, which requires the application of depreciation, in addition to reclassification of proprietary funds and errors and omissions in the previous year. See Note 2.H. for detail:

	Balance 6/30/03	Adjustments	Restated Balance 6/30/03
Governmental Activities:			
Capital assets, not being depreciated:			
Land	\$ 256,030	\$ -	\$ 256,030
Total capital assets, not being depreciated	<u>256,030</u>	<u>-</u>	<u>256,030</u>
Capital assets, being depreciated:			
Land improvements	407,016	95,928	502,944
Buildings and improvements	3,536,823	52,568	3,589,391
Furniture and equipment	3,235,881	(800,266)	2,435,615
Vehicles	<u>707,723</u>	<u>40,062</u>	<u>747,785</u>
Total capital assets, being depreciated	<u>7,887,443</u>	<u>(611,708)</u>	<u>7,275,735</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(4,066,921)</u>	<u>(4,066,921)</u>
Governmental activities capital assets, net	<u>\$ 8,143,473</u>	<u>\$ (4,678,629)</u>	<u>\$ 3,464,844</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

9. CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Restated Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 256,030	\$ -	\$ -	\$ 256,030
Total capital assets, not being depreciated	<u>256,030</u>	<u>-</u>	<u>-</u>	<u>256,030</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	502,944	940	-	503,884
Buildings and improvements	3,589,391	-	-	3,589,391
Furniture and equipment	2,435,615	48,015	(27,799)	2,455,831
Vehicles	747,785	57,581	-	805,366
Total capital assets, being depreciated	<u>7,275,735</u>	<u>106,536</u>	<u>(27,799)</u>	<u>7,354,472</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(78,953)	(29,721)	-	(108,674)
Buildings and improvements	(2,690,376)	(59,212)	-	(2,749,588)
Furniture and equipment	(910,029)	(154,273)	8,545	(1,055,757)
Vehicles	(387,563)	(43,172)	-	(430,735)
Total accumulated depreciation	<u>(4,066,921)</u>	<u>(286,378)</u>	<u>8,545</u>	<u>(4,344,754)</u>
Governmental activities capital assets, net	<u>\$ 3,464,844</u>	<u>\$ (179,842)</u>	<u>\$ (19,254)</u>	<u>\$ 3,265,748</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 172,606

Support Services:

Pupil 31,005
Administration 68,676
Fiscal 1,468
Operations and maintenance 1,693
Pupil transportation 7,468
Extracurricular activities 231
Food service operations 3,231

Total depreciation expense \$ 286,378

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

10. CAPITAL LEASES - LESSEE DISCLOSURE

In January 2001, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital fixed assets consisting of equipment have been capitalized in the amount of the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$4,407 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 5,133
2006	<u>2,994</u>
Total minimum lease payments	8,127
Less amount representing interest	<u>(469)</u>
Total	<u>\$ 7,658</u>

11. LONG-TERM OBLIGATIONS

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased from \$898,073 to \$945,148 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$69,230 at June 30, 2003 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, 2003 was a decrease of \$22,155 from \$991,772 to \$969,617. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

	Interest	Restated Balance Outstanding	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
	Rate	06/30/03			06/30/04	
Governmental Activities:						
Asbestos removal loan	0.00%	\$ 12,404	\$ -	\$ (8,268)	\$ 4,136	\$ 4,136
Energy conservation notes	5.30%	-	357,000	(51,000)	306,000	51,000
General obligation bonds	1.75-5.0%	-	14,600,000	-	14,600,000	200,000
Bond anticipation notes	2.02%	-	2,300,000	-	2,300,000	2,300,000
Capital lease obligation		12,065	-	(4,407)	7,658	4,735
Compensated absences	N/A	945,148	282,002	(179,440)	1,047,710	216,871
Total long-term obligations, governmental activities		<u>\$ 969,617</u>	<u>\$ 17,539,002</u>	<u>\$ (243,115)</u>	18,265,504	<u>\$ 2,776,742</u>
Unamortized premium					190,538	
Total long-term obligations					<u>\$ 18,456,042</u>	

EPA Asbestos Loan - On June 30, 1985, District obtained a loan in the amount of \$148,827 for the purpose of providing asbestos removal. The loan was issued with a 0% interest rate for an eighteen year period with final maturity during fiscal year 2005. The loan will be retired from the debt service fund.

Energy Conservation Notes - On September 25, 2003, the District issued notes in the amount of \$357,000. The notes were issued for the purpose of upgrading buildings owned by the District to reduce energy consumption. The notes were issued at 5.30% for 7 years with semi-annual payments due in June and December. The notes will be retired from a debt service fund.

General Obligation Bonds - On March 1, 2004, the District issued \$14,600,000 in general obligation bonds to provide funds for constructing additions to and renovating and improving existing school facilities. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current \$16.9 million bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2004, the total estimated cost of the Construction Project is \$27,982,110, of which OSFC will pay \$11,082,110.

Interest payments on the general obligation bonds are due on December 1 and June 1 of each year. The final maturity stated in the issue is December 1, 2031.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

B. The following is a summary of the District's future annual debt service requirements to maturity for notes and bonds:

Year Ending June 30	Principal on Asbestos Loan	Interest on Asbestos Loan	Total	Principal on Energy Conservation Bonds	Interest on Energy Conservation Bonds	Total
2005	\$ 4,136	\$ -	\$ 4,136	\$ 51,000	\$ 15,077	\$ 66,077
2006	-	-	-	51,000	12,336	63,336
2007	-	-	-	51,000	9,596	60,596
2008	-	-	-	51,000	6,915	57,915
2009	-	-	-	51,000	4,145	55,145
2010	-	-	-	51,000	1,389	52,389
Total	<u>\$ 4,136</u>	<u>\$ -</u>	<u>\$ 4,136</u>	<u>\$ 306,000</u>	<u>\$ 49,458</u>	<u>\$ 355,458</u>

Year Ending June 30	Principal on Construction Bonds	Interest on Construction Bonds	Total
2005	\$ 200,000	\$ 747,125	\$ 947,125
2006	200,000	593,850	793,850
2007	230,000	589,800	819,800
2008	285,000	584,650	869,650
2009	315,000	578,453	893,453
2010 - 2014	1,950,000	2,727,571	4,677,571
2015 - 2019	2,330,000	2,334,014	4,664,014
2020 - 2024	2,870,000	1,772,345	4,642,345
2025 - 2029	3,640,000	985,735	4,625,735
2030 - 2032	<u>2,580,000</u>	<u>171,713</u>	<u>2,751,713</u>
Total	<u>\$ 14,600,000</u>	<u>\$ 11,085,256</u>	<u>\$ 25,685,256</u>

12. NOTES PAYABLE

The bond anticipation notes described below have been issued in anticipation of bonds to provide funds for various construction and renovation projects from the proceeds of bonds issued on March 1, 2004, and notes issued on May 9, 2004. These notes are general obligations of the District for which full faith and credit of the District pledge for repayment.

	Interest Rate	Issue Date	Notes Outstanding 06/30/03	Issued	Retired	Notes Outstanding 06/30/04
Bond anticipation notes	1.85%	12/23/03	\$ -	\$ 14,600,000	\$ (14,600,000)	\$ -
Bond anticipation notes	2.77%	1/20/04	-	2,300,000	(2,300,000)	-
Total			<u>\$ -</u>	<u>\$ 16,900,000</u>	<u>\$ (16,900,000)</u>	<u>\$ -</u>

The bond anticipation notes outstanding are reported as a component of governmental activities long-term liabilities. See Note 11A. for details.

**JEFFERSON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

13. 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. During fiscal year 2004, the District contracted with Great American Insurance Company for property and fleet insurance and Ohio School Plan for liability insurance. Coverages provided are as follows:

<u>Description</u>	<u>Amount</u>
Building and Contents	
Replacement cost	\$22,993,700
Deductible	1,000
Liability	
School Board Errors and Omissions Liability	
Each wrongful act limit	1,000,000
Annual aggregate limit	2,000,000
Deductible	2,500
General Liability	
Per occurrence combined single limit	1,000,000
Annual aggregate limit	3,000,000
Medical payments limit	10,000
Employee Benefits Liability	
Each wrongful act limit	1,000,000
Annual aggregate limit	3,000,000
Deductible	0
Stop Gap	
Each accident	1,000,000
Disease each employee	1,000,000
Disease policy limit	1,000,000
Automotive Liability	
Liability	
Per occurrence combined single limit	\$1,000,000
Medical payments limit	5,000
Uninsured/underinsured motorists coverage	1,000,000
Auto Physical Damage (actual cash value)	
Comprehensive deductible	250
Collision deductible	500

Settled claims have not exceeded this commercial coverage in any of the past three years. Also, the District has not materially reduced its coverage in the past year.

**JEFFERSON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

13. RISK MANAGEMENT (Continued)

B. Medical and Dental Insurance

Medical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$85,879 reported in the internal service fund at June 30, 2004, is based on an estimate provided by Klais and Company, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 58,645	\$ 506,196	\$ (478,962)	\$ 85,879
2003	45,208	552,212	(538,775)	58,645

C. Workers' Compensation Group Rating Plan

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see 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 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 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.

14. 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

14. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% 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, 2004, 2003, and 2002 were \$184,373, \$178,872, and \$184,224, respectively; 45% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$101,052, represents the unpaid contribution for fiscal year 2004.

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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

14. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% 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, 2004, 2003, and 2002 were \$577,829, \$502,896, \$500,256, respectively; 84% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$91,789, represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

15. 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 \$41,273 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

15. POSTEMPLOYMENT BENEFITS (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$25,400. 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 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) 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 \$81,423 during the 2004 fiscal year.

16. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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	\$ 813,791
Net adjustment for revenue accruals	87,618
Net adjustment for expenditure accruals	83,678
Net adjustment for other sources/uses	(347,170)
Adjustment for encumbrances	<u>121,336</u>
GAAP basis	<u>\$ 759,253</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

17. CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

18. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, 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, 2003	\$ 70,369	\$ -	\$ 75,000
Current year set-aside requirement	171,227	171,227	-
Qualifying disbursements	<u>(181,290)</u>	<u>(378,749)</u>	<u>-</u>
Total	<u>\$ 60,306</u>	<u>\$ (207,522)</u>	<u>\$ 75,000</u>
Cash balance carried forward to FY 2005	<u>\$ 60,306</u>	<u>\$ -</u>	<u>\$ 75,000</u>

A schedule of the restricted assets at June 30, 2004 follows:

Amounts restricted for textbooks/instructional supplies	\$ 60,306
Amount restricted for budget stabilization	<u>75,000</u>
Total restricted assets	<u>\$ 135,306</u>

19. SUBSEQUENT EVENT

On November 30, 2004, the District issued \$2,300,000 in School Facilities Construction and Improvement Bond Anticipation Notes to retire \$2,300,000 in School Facilities Construction and Improvement Bond Anticipation Notes maturing November 30, 2004.

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Auditor of State Betty Montgomery

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

Jefferson Local School District
Madison County
906 West Main Street
West Jefferson, Ohio 43162

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Jefferson Local School District, Madison County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 1, 2005, wherein we noted the District implemented Governmental Accounting Standards Board Statement No. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 1, 2005.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the District's management in a separate letter dated March 1, 2005.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
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Jefferson Local School District
Madison County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

March 1, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

JEFFERSON LOCAL SCHOOL DISTRICT

MADISON 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
MARCH 31, 2005**