



**Auditor of State
Betty Montgomery**

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets Of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non GAAP Budgetary Basis) – General Fund.....	19
Statement of Net Assets – Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund.....	21
Statement of Cash Flows – Proprietary Fund.....	22
Statement of Fiduciary Net Assets – Fiduciary Funds.....	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	24
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Receipts and Expenditures.....	55
Notes to the Schedule of Federal Awards Receipts and Expenditures	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards.....	57
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	59
Schedule of Findings.....	61

THIS PAGE INTENTIONALLY LEFT BLANK



**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 Jefferson Local School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Jefferson Local School District, Madison County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable thereof, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

November 18, 2005

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities increased \$1,208,688 which represents a 6.89% increase from 2004.
- General revenues accounted for \$10,358,468 in revenue or 87.09% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,535,426 or 12.91% of total revenues of \$11,893,894.
- The District had \$10,685,206 in expenses related to governmental activities; \$1,535,426 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,358,468 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 \$9,277,020 in revenues and other financing sources and \$8,894,248 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$382,772 from \$4,291,915 to \$4,674,687.
- The debt service fund had \$3,426,943 in revenues and other financing sources and \$3,358,025 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$68,918.
- The classroom facilities fund had \$6,372,905 in revenues and \$3,448,604 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance increased \$2,924,301 from \$13,419,382 to \$16,343,683.

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 governmental funds reported as major funds.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 2005?" 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 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental 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 15-18 of this report.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 20-22 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 23 and 24. 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 25-52 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis has been provided. The 2004 balances have been restated due to a prior period adjustment to net assets described in Note 3.B in the notes to the basic financial statements.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 36,764,407	\$ 38,257,774
Capital assets, net	<u>6,179,695</u>	<u>2,321,444</u>
Total assets	<u>42,944,102</u>	<u>40,579,218</u>
<u>Liabilities</u>		
Current liabilities	6,213,937	4,584,090
Long-term liabilities	<u>17,982,391</u>	<u>18,456,042</u>
Total liabilities	<u>24,196,328</u>	<u>23,040,132</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,899,333	2,007,786
Restricted	15,041,084	29,005,256
Unrestricted	<u>1,807,357</u>	<u>(13,473,956)</u>
Total net assets	<u>\$ 18,747,774</u>	<u>\$ 17,539,086</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

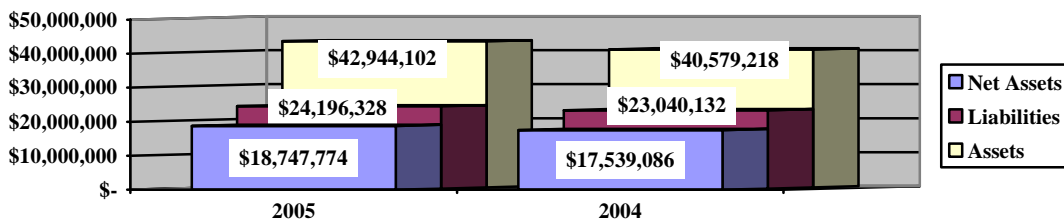
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$18,747,774. Of this total, \$15,041,084 is restricted in use.

At year-end, capital assets represented 14.39% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$1,899,333. 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, \$15,041,084, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,807,357 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004. Certain 2004 expenditures have been restated due to a prior period adjustment made to capital assets described in Note 3.B of the notes to the basic financial statements.

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Revenues		
Program revenues:		
Charges for services and sales	\$ 887,060	\$ 889,947
Operating grants and contributions	637,131	583,627
Capital grants and contributions	11,235	-
General revenues:		
Property taxes	4,820,324	4,471,691
School District income tax	548,670	630,097
Grants and entitlements	4,249,906	15,410,819
Payment in lieu of taxes	245,673	-
Investment earnings	487,348	85,169
Other	<u>6,547</u>	<u>136,855</u>
Total revenues	<u>11,893,894</u>	<u>22,208,205</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

	Change in Net Assets	
	Governmental Activities <u>2005</u>	Restated Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,217,378	\$ 4,795,612
Special	1,299,836	1,070,688
Vocational	-	910
Support services:		
Pupil	376,032	578,285
Instructional staff	365,243	478,988
Board of education	49,436	30,054
Administration	794,954	966,556
Fiscal	370,738	356,826
Business	16,918	4,073
Operations and maintenance	854,452	1,001,083
Pupil transportation	453,196	636,318
Central	305,005	226,246
Operations of non-instructional services:		
Non-instructional services	-	5,280
Food service operations	408,257	433,192
Extracurricular activities	337,946	332,433
Interest and fiscal charges	<u>835,815</u>	<u>170,653</u>
Total expenses	<u>10,685,206</u>	<u>11,087,197</u>
Change in net assets	1,208,688	11,121,008
Net assets at beginning of year	<u>17,539,086</u>	<u>6,418,078</u>
Net assets at end of year	<u><u>\$ 18,747,774</u></u>	<u><u>\$ 17,539,086</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,208,688. Total governmental expenses of \$10,685,206 were offset by program revenues of \$1,535,426 and general revenues of \$10,358,468. Program revenues supported 14.37% 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 80.87% of total governmental revenue.

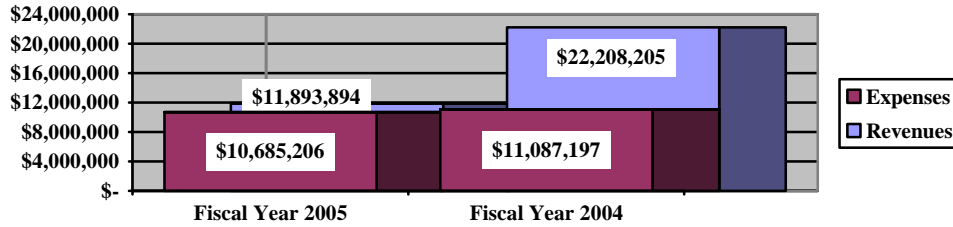
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,517,214 or 51.63% of total governmental expenses for fiscal 2005.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 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. The following is a comparison of 2005 and 2004. Certain 2004 amounts have been restated due to a prior period adjustment to capital assets described in Note 3.B of the notes to the basic financial statements.

Governmental Activities

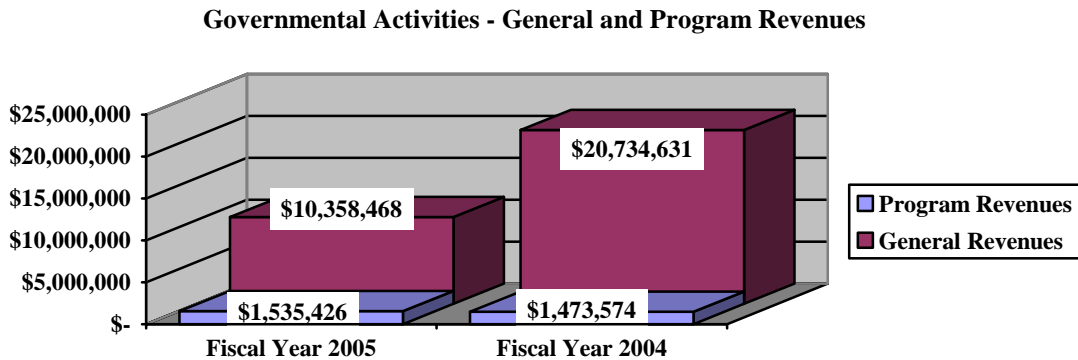
	Total Cost of Services 2005	Net Cost of Services 2005	Restated Total Cost of Services 2004	Restated Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 4,217,378	\$ 3,634,689	\$ 4,795,612	\$ 4,279,433
Special	1,299,836	944,280	1,070,688	785,865
Vocational	-	-	910	910
Support services:				
Pupil	376,032	349,682	578,285	547,523
Instructional staff	365,243	325,453	478,988	443,127
Board of education	49,436	49,436	30,054	19,290
Administration	794,954	791,239	966,556	966,556
Fiscal	370,738	370,738	356,826	356,826
Business	16,918	16,918	4,073	4,073
Operations and maintenance	854,452	854,452	1,001,083	1,000,633
Pupil transportation	453,196	453,196	636,318	636,318
Central	305,005	284,416	226,246	209,246
Operations of non-instructional services:				
Non-instructional services	-	-	5,280	5,280
Food service operations	408,257	11,394	433,192	17,023
Extracurricular activities	337,946	228,072	332,433	170,867
Interest and fiscal charges	<u>835,815</u>	<u>835,815</u>	<u>170,653</u>	<u>170,653</u>
Total expenses	\$ 10,685,206	\$ 9,149,780	\$ 11,087,197	\$ 9,613,623

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 82.99% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.63%. 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 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$25,201,555, which is higher than last year's restated total of \$22,126,958. The June 30, 2004 fund balances have been restated as described in Note 3.B. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 4,674,687	\$ 4,291,915	\$ 382,772	8.92 %
Debt Service	729,347	660,429	68,918	10.44 %
Classroom Facilities	16,343,683	13,419,382	2,924,301	21.79 %
Other Governmental	<u>3,453,838</u>	<u>3,755,232</u>	<u>(301,394)</u>	(8.03) %
Total	<u>\$ 25,201,555</u>	<u>\$ 22,126,958</u>	<u>\$ 3,074,597</u>	13.90 %

General Fund

The District's general fund balance increased \$382,772 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.B. to the basic financial statements). 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, 2005
UNAUDITED
(Continued)**

	2005 <u>Amount</u>	2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 4,287,134	\$ 4,299,715	\$ (12,581)	(0.29) %
Tuition	354,449	374,713	(20,264)	(5.41) %
Earnings on investments	122,064	20,426	101,638	497.59 %
Intergovernmental	4,145,595	4,257,131	(111,536)	(2.62) %
Other revenues	<u>259,232</u>	<u>145,904</u>	<u>113,328</u>	77.67 %
 Total	 <u>\$ 9,168,474</u>	 <u>\$ 9,097,889</u>	 <u>\$ 70,585</u>	 0.78 %
<u>Expenditures</u>				
Instruction	\$ 4,794,471	\$ 4,613,076	\$ 181,395	3.93 %
Support services	3,371,142	3,375,488	(4,346)	(0.13) %
Extracurricular activities	235,373	225,700	9,673	4.29 %
Facilities acquisition and construction	11,284	15,018	(3,734)	(24.86) %
Capital outlay	107,737	-	107,737	100.00 %
Debt service	<u>24,798</u>	<u>5,133</u>	<u>19,665</u>	383.11 %
 Total	 <u>\$ 8,544,805</u>	 <u>\$ 8,234,415</u>	 <u>\$ 310,390</u>	 3.77 %

The significant increase in earnings on investments is primarily due to an increase in the amount of investments due to receipts of Ohio School Facilities Commission (OSFC) grant funds which have been invested by the District during construction, but also due to an increase in interest rates. The increases in capital outlay and debt service expenditures are due to the implementation of new leases for copier equipment during fiscal year 2005.

Debt Service Fund

The debt service fund had \$3,426,943 in revenues and other financing sources and \$3,358,025 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$68,918, or 10% of the 2004 fund balance. The debt service fund's revenues increased due to receipt of a full year of taxes for the new levy which the District began receiving during fiscal year 2004 and the issuance of new bond anticipation notes. The debt service fund's expenditures increased significantly due to the retirement of bond anticipation notes.

Classroom Facilities Fund

The classroom facilities fund had \$6,372,905 in revenues and \$3,448,604 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance increased \$2,924,301 due to the receipt of OSFC grant funds which exceeded the expenditures for the fiscal year. The significant increase in expenditures is due to construction expenditures which began during fiscal year 2005.

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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,092,279 and final budgeted revenues and other financing sources were \$9,209,586. Actual revenues and other financing sources for fiscal 2005 were \$9,209,586. This represents an \$117,307 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,213,622 were decreased to \$9,038,592 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$9,017,452, which was \$21,140 below the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$6,179,695 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The 2004 balances have been restated as described in Note 9.A in the notes to the basic financial statements. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	Restated 2004
Land	\$ 256,030	\$ 256,030
Construction in progress	3,928,235	-
Land improvements	310,147	337,082
Building and improvements	846,077	908,577
Furniture and equipment	605,092	590,807
Vehicles	234,114	228,948
Total	\$ 6,179,695	\$ 2,321,444

The overall increase in capital assets of \$3,858,251 is due to construction in progress for the OSFC project which began during fiscal year 2005. Capital outlays of \$4,097,502 exceeded depreciation expense of \$233,828 and disposals of \$5,423 (net of accumulated depreciation) 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, 2005, the District had \$255,000 in energy conservation bonds, \$14,400,000 in general obligation bonds, \$2,300,000 in bond anticipation notes, and \$97,127 in capital lease obligations outstanding. Of this total, \$2,573,307 is due within one year and \$14,478,820 is due in greater than one year. The asbestos removal loans were retired during this fiscal year. The following table summarizes the bonds, notes and leases outstanding.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

Outstanding Debt, at Year End

	Governmental Activities	
	2005	2004
Asbestos removal notes	\$ -	\$ 4,136
Energy conservation bonds	255,000	306,000
Capital lease obligations	97,127	7,658
General obligation bonds	14,400,000	14,600,000
Bond anticipation notes	2,300,000	2,300,000
Total	\$ 17,052,127	\$ 17,217,794

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

Current Financial Related Activities

The District has committed itself to educational and financial excellence for many years. The budgeting and internal controls utilized by the District are well regarded by the Auditor of State, as exemplified by the unqualified audit opinions that have been received. 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.

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

Contacting the District's Financial Management

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 9,104,219
Cash with escrow agent.	23,868
Investments.	16,677,820
Receivables:	
Taxes	5,291,516
Accounts	25,696
Intergovernmental	5,301,812
Accrued interest	102,969
Prepayments	21,852
Materials and supplies inventory	31,046
Unamortized bond issue costs	183,609
Capital assets:	
Land and construction in progress	4,184,265
Depreciable capital assets, net.	1,995,430
Total capital assets, net.	6,179,695
Total assets.	42,944,102
Liabilities:	
Accounts payable.	59,235
Contracts payable.	1,410,197
Retainage payable	23,868
Accrued wages and benefits	736,127
Pension obligation payable.	242,281
Intergovernmental payable	66,577
Deferred revenue	3,520,093
Claims payable	50,268
Accrued interest payable	105,291
Long-term liabilities:	
Due within one year.	2,650,025
Due in more than one year	15,332,366
Total liabilities	24,196,328
Net Assets:	
Invested in capital assets, net	
of related debt.	1,899,333
Restricted for:	
Capital projects	14,122,626
Debt service.	646,106
Other purposes	272,352
Unrestricted	1,807,357
Total net assets	\$ 18,747,774

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,217,378	\$ 493,385	\$ 78,069	\$ 11,235	\$ (3,634,689)
Special	1,299,836	-	355,556	-	(944,280)
Support services:					
Pupil.	376,032	1,537	24,813	-	(349,682)
Instructional staff	365,243	-	39,790	-	(325,453)
Board of education	49,436	-	-	-	(49,436)
Administration.	794,954	-	3,715	-	(791,239)
Fiscal.	370,738	-	-	-	(370,738)
Business.	16,918	-	-	-	(16,918)
Operations and maintenance	854,452	-	-	-	(854,452)
Pupil transportation	453,196	-	-	-	(453,196)
Central	305,005	-	20,589	-	(284,416)
Operation of non-instructional services:					
Food service operations.	408,257	282,264	114,599	-	(11,394)
Extracurricular activities	337,946	109,874	-	-	(228,072)
Interest and fiscal charges	835,815	-	-	-	(835,815)
Total governmental activities	\$ 10,685,206	\$ 887,060	\$ 637,131	\$ 11,235	(9,149,780)

General Revenues:

Property taxes levied for:	
General purposes	3,789,274
Classroom maintenance	63,155
Debt service.	967,895
School district income tax	548,670
Grants and entitlements not restricted	
to specific programs.	4,249,906
Payment in lieu of taxes	245,673
Investment earnings	487,348
Miscellaneous	6,547
Total general revenues	10,358,468
Change in net assets	1,208,688
Net assets at beginning of year (restated).	17,539,086
Net assets at end of year.	\$ 18,747,774

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<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	\$ 4,211,061	\$ 441,447	\$ 3,585,491	\$ 657,271	\$ 8,895,270
Cash with escrow agent	-	-	23,868	-	23,868
Investments	-	-	13,664,138	3,013,682	16,677,820
Receivables:					
Taxes	4,201,786	1,026,050	-	63,680	5,291,516
Accounts	110	-	-	25,586	25,696
Intergovernmental	-	-	5,284,508	17,304	5,301,812
Accrued interest	20,935	-	67,210	14,824	102,969
Interfund receivable	9,600	-	-	-	9,600
Prepayments	21,852	-	-	-	21,852
Materials and supplies inventory	25,600	-	-	5,446	31,046
Restricted assets:					
Equity in pooled cash and cash equivalents	91,333	-	-	-	91,333
Total assets	<u>\$ 8,582,277</u>	<u>\$ 1,467,497</u>	<u>\$ 22,625,215</u>	<u>\$ 3,797,793</u>	<u>\$ 36,472,782</u>
Liabilities:					
Accounts payable	\$ 50,193	\$ -	\$ -	\$ 9,042	\$ 59,235
Contracts payable	-	-	1,243,406	166,791	1,410,197
Retainage payable	-	-	23,868	-	23,868
Accrued wages and benefits	688,484	-	-	47,643	736,127
Compensated absences payable	38,962	-	-	-	38,962
Pension obligation payable.	212,384	-	-	29,897	242,281
Intergovernmental payable.	60,986	-	-	5,591	66,577
Interfund loans payable.	-	-	-	9,600	9,600
Deferred revenue.	2,856,581	738,150	5,014,258	75,391	8,684,380
Total liabilities	<u>3,907,590</u>	<u>738,150</u>	<u>6,281,532</u>	<u>343,955</u>	<u>11,271,227</u>
Fund Balances:					
Reserved for encumbrances	135,582	-	824,699	328,259	1,288,540
Reserved for materials and supplies inventory.	25,600	-	-	5,446	31,046
Reserved for prepayments	21,852	-	-	-	21,852
Reserved for property tax unavailable for appropriation	1,106,200	287,900	-	18,600	1,412,700
Reserved for debt service	-	441,447	-	-	441,447
Reserved for budget stabilization	75,000	-	-	-	75,000
Reserved for textbooks/instructional supplies	16,333	-	-	-	16,333
Unreserved, undesignated, reported in:					
General fund	3,294,120	-	-	-	3,294,120
Special revenue funds.	-	-	-	191,393	191,393
Capital projects funds.	-	-	15,518,984	2,910,140	18,429,124
Total fund balances	<u>4,674,687</u>	<u>729,347</u>	<u>16,343,683</u>	<u>3,453,838</u>	<u>25,201,555</u>
Total liabilities and fund balances	<u>\$ 8,582,277</u>	<u>\$ 1,467,497</u>	<u>\$ 22,625,215</u>	<u>\$ 3,797,793</u>	<u>\$ 36,472,782</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, 2005**

Total governmental fund balances		\$	25,201,555
<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.			6,179,695
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	109,290	
Intergovernmental revenue		4,964,352	
Accrued interest		90,645	
Total			5,164,287
Unamortized bond issuance costs are not recognized in the funds governmental activities on the statement of net assets.			(183,609)
Unamortized premiums on bond issuance is not recognized in the funds.			183,609
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(105,291)
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		(707,693)	
Energy conservation bonds payable		(255,000)	
School facilities notes payable		(2,300,000)	
General obligation bonds payable		(14,400,000)	
Capital lease obligation payable		(97,127)	
Total			(17,759,820)
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.			67,348
Net assets of governmental activities		\$	18,747,774

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, 2005**

	<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	\$ 4,287,134	\$ 959,645	\$ -	\$ 62,585	\$ 5,309,364
Tuition	354,449	-	-	-	354,449
Charges for services	-	-	-	282,264	282,264
Earnings on investments	122,064	-	237,843	90,397	450,304
Extracurricular	-	-	-	191,180	191,180
Classroom materials and fees	-	-	-	52,105	52,105
Other local revenues	259,232	-	-	13,992	273,224
Intergovernmental - Intermediate	-	-	-	5,000	5,000
Intergovernmental - State	4,145,595	97,064	6,135,062	99,438	10,477,159
Intergovernmental - Federal	-	-	-	552,281	552,281
Total revenue	<u>9,168,474</u>	<u>1,056,709</u>	<u>6,372,905</u>	<u>1,349,242</u>	<u>17,947,330</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,896,477	-	-	205,270	4,101,747
Special	897,994	-	-	374,354	1,272,348
Support services:					
Pupil	315,202	-	-	25,324	340,526
Instructional staff	319,702	-	-	42,941	362,643
Board of education	49,436	-	-	-	49,436
Administration	794,341	-	-	3,756	798,097
Fiscal	338,525	21,293	-	1,429	361,247
Business	16,918	-	-	-	16,918
Operations and maintenance	873,211	-	-	-	873,211
Pupil transportation	375,361	-	-	-	375,361
Central	288,446	-	-	20,538	308,984
Operation of non-instructional services:					
Food service operations	-	-	-	396,597	396,597
Extracurricular activities	235,373	-	-	102,091	337,464
Facilities acquisition and construction	11,284	2,000	3,448,604	485,722	3,947,610
Capital outlay	107,737	-	-	-	107,737
Debt service:					
Principal retirement	18,268	2,555,136	-	-	2,573,404
Interest and fiscal charges	6,530	779,596	-	-	786,126
Total expenditures	<u>8,544,805</u>	<u>3,358,025</u>	<u>3,448,604</u>	<u>1,658,022</u>	<u>17,009,456</u>
Excess of revenues over (under) expenditures	<u>623,669</u>	<u>(2,301,316)</u>	<u>2,924,301</u>	<u>(308,780)</u>	<u>937,874</u>
Other financing sources (uses):					
Transfers in	-	70,234	-	4,209	74,443
Transfers (out)	(349,443)	-	-	-	(349,443)
Sale of capital assets	809	-	-	3,177	3,986
Issuance of notes	-	2,300,000	-	-	2,300,000
Capital lease transaction	107,737	-	-	-	107,737
Total other financing sources (uses)	<u>(240,897)</u>	<u>2,370,234</u>	<u>-</u>	<u>7,386</u>	<u>2,136,723</u>
Net change in fund balances	382,772	68,918	2,924,301	(301,394)	3,074,597
Fund balances at beginning of year (restated)					
	<u>4,291,915</u>	<u>660,429</u>	<u>13,419,382</u>	<u>3,755,232</u>	<u>22,126,958</u>
Fund balances at end of year	<u>\$ 4,674,687</u>	<u>\$ 729,347</u>	<u>\$ 16,343,683</u>	<u>\$ 3,453,838</u>	<u>\$ 25,201,555</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 YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds		\$ 3,074,597
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	4,097,502	
Current year depreciation	<u>(233,828)</u>	
Total		3,863,674
 Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(5,423)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	59,630	
Intergovernmental	(6,150,110)	
Accrued interest	<u>37,044</u>	
Total		(6,053,436)
 Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets.		
		2,573,404
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
		(49,689)
 The issuance of notes and leases are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(2,407,737)
 Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		
		179,303
 The internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.		
		<u>33,995</u>
Change in net assets of governmental activities		<u>\$ 1,208,688</u>

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, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,280,439	\$ 4,335,841	\$ 4,335,841	\$ -
Tuition.	349,920	354,449	354,449	-
Earnings on investments.	84,215	85,305	85,305	-
Other local revenues.	256,132	259,447	259,447	-
Intergovernmental - State.	<u>4,092,624</u>	<u>4,145,595</u>	<u>4,145,595</u>	-
Total revenues	<u>9,063,330</u>	<u>9,180,637</u>	<u>9,180,637</u>	-
Expenditures:				
Current:				
Instruction:				
Regular	4,130,734	4,049,080	4,039,218	9,862
Special.	843,690	827,012	824,998	2,014
Other.	767	752	750	2
Support services:				
Pupil.	344,663	337,850	337,027	823
Instructional staff	389,264	381,569	380,640	929
Board of education	56,833	55,710	55,574	136
Administration.	811,307	795,270	793,333	1,937
Fiscal	375,016	367,603	366,708	895
Business	17,429	17,085	17,043	42
Operations and maintenance.	942,250	923,625	921,375	2,250
Pupil transportation	396,905	389,060	388,112	948
Central.	281,536	275,971	275,299	672
Extracurricular activities.	250,222	245,275	244,678	597
Facilities acquisition and construction.	<u>13,963</u>	<u>13,687</u>	<u>13,654</u>	<u>33</u>
Total expenditures	<u>8,854,579</u>	<u>8,679,549</u>	<u>8,658,409</u>	<u>21,140</u>
Excess of revenues over expenditures.	<u>208,751</u>	<u>501,088</u>	<u>522,228</u>	<u>21,140</u>
Other financing sources (uses):				
Sale of capital assets	809	809	809	-
Transfers (out)	(349,443)	(349,443)	(349,443)	-
Advances in.	13,900	13,900	13,900	-
Advances (out)	(9,600)	(9,600)	(9,600)	-
Refund of prior year expenditure.	<u>14,240</u>	<u>14,240</u>	<u>14,240</u>	<u>-</u>
Total other financing sources (uses)	<u>(330,094)</u>	<u>(330,094)</u>	<u>(330,094)</u>	<u>-</u>
Net change in fund balance.	(121,343)	170,994	192,134	21,140
Fund balance at beginning of year	3,803,499	3,803,499	3,803,499	-
Prior year encumbrances appropriated	<u>121,336</u>	<u>121,336</u>	<u>121,336</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,803,492</u>	<u>\$ 4,095,829</u>	<u>\$ 4,116,969</u>	<u>\$ 21,140</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005**

	Governmental Activities - Internal Service Fund
Assets:	
Current:	
Equity in pooled cash and cash equivalents	\$ 117,616
Total assets.	117,616
 Liabilities:	
Current:	
Claims payable	50,268
Total liabilities	50,268
 Net assets:	
Unrestricted.	67,348
Total net assets	\$ 67,348

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, 2005**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 538,130
Total operating revenues	538,130
Operating expenses:	
Purchased services	184,477
Claims expense	594,658
Total operating expenses	779,135
Operating loss before transfers	(241,005)
Transfer in	275,000
Change in net assets.	33,995
Net assets at beginning of year	33,353
Net assets at end of year.	\$ 67,348

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, 2005**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash receipts from charges for services	\$ 565,131
Cash payments for purchased services	(184,477)
Cash payments for claims	(630,269)
	(249,615)
Net cash used in operating activities	(249,615)
Cash flows from noncapital financing activities:	
Cash received from transfers in	275,000
	275,000
Net cash provided by noncapital financing activities.	275,000
Net increase in cash and cash equivalents.	25,385
Cash and cash equivalents at beginning of year . . .	92,231
Cash and cash equivalents at end of year.	\$ 117,616
	117,616
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (241,005)
Changes in assets and liabilities:	
Decrease in accounts receivable	27,001
Decrease in claims payable.	(35,611)
	(8,610)
Net cash used in operating activities	\$ (249,615)
	(249,615)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 310,077	\$ 54,831
Total assets.	<u>310,077</u>	<u>\$ 54,831</u>
Liabilities:		
Accounts payable.	-	\$ 57
Due to students	-	54,774
Total liabilities	<u>-</u>	<u>\$ 54,831</u>
Net Assets:		
Held in trust for scholarships	<u>310,077</u>	
Total net assets	<u>\$ 310,077</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, 2005**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 6,035
Gifts and contributions	14,163
Total additions.	20,198
Deductions:	
Scholarships awarded	8,343
Change in net assets	11,855
Net assets at beginning of year.	298,222
Net assets at end of year	\$ 310,077

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

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 413th largest in the State of Ohio among 609 public school districts in terms of enrollment. It is staffed by 56 non-certificated employees and 79 certificated full-time teaching personnel who provide services to 1,313 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 organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, 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 organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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 "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 Plan. Each year, the participating school districts pay an enrollment fee to the Plan 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 FISCAL YEAR ENDED JUNE 30, 2005
(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 FISCAL YEAR ENDED JUNE 30, 2005
(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 FISCAL YEAR ENDED JUNE 30, 2005
(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, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, 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 FISCAL YEAR ENDED JUNE 30, 2005
(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 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the 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 2005.
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 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 FISCAL YEAR ENDED JUNE 30, 2005
(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, 2005; 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" and "Investments" on the basic financial statements.

During fiscal year 2005, investments were limited to 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.

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 2005 amounted to \$122,064, which includes \$44,386 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.

G. Inventory

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 capital assets are recorded at their fair market values as of the date received. The District has changed the capitalization threshold from \$500 to \$1,000, see Note 9.A for details. 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 and construction in progress 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.

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, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences (Continued)

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. 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 and compensated absences 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 and notes are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, budget stabilization, 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

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 17.

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 basic financial statements.

S. Unamortized Insurance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**S. Unamortized Insurance Costs/Bond Premium and Discount/Accounting Gain or Loss
(Continued)**

On the governmental fund financial statements, bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 11.A.

T. 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 2005.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>
Fund Balances, June 30, 2004	\$ 4,385,679	\$ 660,429	\$ 13,419,382	\$ 3,793,315
GASB Technical Bulletin No. 2004-2	<u>(93,764)</u>	<u>-</u>	<u>-</u>	<u>(38,083)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 4,291,915</u>	<u>\$ 660,429</u>	<u>\$ 13,419,382</u>	<u>\$ 3,755,232</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

3. ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Accounting Change

The District has reported an accounting change as a result of a change in the District's capitalization threshold (see Note 2.H.) and to account for the reclassification of an asset from land improvements to buildings and improvements. The prior period adjustment has the following effect on net assets as previously reported at June 30, 2004.

	<u>Total</u>
Net assets, June 30, 2004	\$ 18,483,390
Restatement of capital assets	<u>(944,304)</u>
Restated net assets, June 30, 2004	<u>\$ 17,539,086</u>

C. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
EMIS	\$ 75
Entry Year Grant	67
Ohio Reads	43
Summer Intervention	74
Title I	9,991
Title II-A	2,288
Miscellaneous Federal Grants	984

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 result from adjustments for accrued liabilities.

4. DEPOSITS AND INVESTMENTS

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

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

A. Cash with Escrow Agent

At fiscal year-end, \$23,868 was on deposit in the District's escrow account and excluded from the total amount of deposits reported below. This amount is not part of the internal cash pool, but reported on the financial statements as "Cash with Escrow Agent."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$6,043,127, exclusive of the \$234,434 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$6,027,981 of the District's bank balance of \$6,127,981 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

Investment type	Balance at Fair Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
Repurchase Agreement	\$ 234,434	\$ 234,434	\$ -	\$ -	\$ -
Bankers Acceptance	205,703	205,703	-	-	-
FHLMC	9,683,248	2,987,643	5,454,181	1,241,424	-
FHLB	5,277,109	2,808,011	983,604	991,279	494,215
FNMA	4,703,326	1,987,656	495,214	1,729,887	490,569
	<u>\$ 20,103,820</u>	<u>\$ 8,223,447</u>	<u>\$ 6,932,999</u>	<u>\$ 3,962,590</u>	<u>\$ 984,784</u>

The weighted average maturity of investments is .69 years.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

C. Investments (Continued)

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

Credit Risk: The District's investments, except for the repurchase agreement as discussed above were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 234,434	1.17
BA	205,703	1.02
FHLMC	9,683,248	48.16
FNMA	4,703,326	23.40
FHLB	<u>5,277,109</u>	<u>26.25</u>
	<u>\$ 20,103,820</u>	<u>100.00</u>

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

The cash and investments reconcile to the statement of net assets as of June 30, 2005, as follows:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 6,043,127
Fair Value of Investments	20,103,820
Cash with escrow agent	<u>23,868</u>
Total Deposits and Investments	<u>\$ 26,170,815</u>
 <u>Cash and investments per Statements of Net Assets</u>	
Governmental activities	\$ 25,805,907
Fiduciary Funds	<u>364,908</u>
Total	<u>\$ 26,170,815</u>

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2005 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	\$ 9,600

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

5. INTERFUND TRANSACTIONS (Continued)

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, 2005 are reported on the statement of net assets.

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 4,209
Transfers to Employee Benefits Self-Insurance fund from:	
General fund	275,000
Transfers to Debt Service fund from:	
General fund	<u>70,234</u>
Total transfers	<u>\$ 349,443</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.

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

6. PROPERTY TAXES (Continued)

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

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable 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, 2005, are available to finance fiscal year 2005 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, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$1,106,200 in the general fund, \$287,900 in the debt service fund, and \$18,600 in the other nonmajor governmental funds. This amount has been recorded as 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 nonmajor 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 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 114,712,940	82.94	\$ 118,354,830	82.81
Tangible personal property	<u>23,598,110</u>	<u>17.06</u>	<u>24,573,920</u>	<u>17.19</u>
Total	<u>\$ 138,311,050</u>	<u>100.00</u>	<u>\$ 142,928,750</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 39.38		\$ 39.38	

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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 2005, the District income tax generated \$548,670 in revenue. The District apportions all the proceeds to the general fund.

8. RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued 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	\$ 5,291,516
Accounts	25,696
Accrued interest	102,969
Intergovernmental	<u>5,301,812</u>
Total	<u>\$ 10,721,993</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 change in capitalization threshold in addition to reclassification of an asset from land improvements to buildings and improvements. See Note 2.H. for detail:

	<u>Balance</u> <u>6/30/2004</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/2004</u>
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	503,884	(71,700)	432,184
Buildings and improvements	3,589,391	82,200	3,671,591
Furniture and equipment	2,455,831	(731,903)	1,723,928
Vehicles	805,366	(2,617)	802,749
Total capital assets, being depreciated	<u>7,354,472</u>	<u>(724,020)</u>	<u>6,630,452</u>
<i>Less: accumulated depreciation</i>	<u>(4,344,754)</u>	<u>(220,284)</u>	<u>(4,565,038)</u>
Governmental activities capital assets, net	<u>\$ 3,265,748</u>	<u>\$ (944,304)</u>	<u>\$ 2,321,444</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

9. CAPITAL ASSETS (Continued)

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

	Restated Balance <u>6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/05</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 256,030	\$ -	\$ -	\$ 256,030
Construction in progress	-	3,928,235	-	3,928,235
Total capital assets, not being depreciated	<u>256,030</u>	<u>3,928,235</u>	<u>-</u>	<u>4,184,265</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	432,184	-	-	432,184
Buildings and improvements	3,671,591	-	-	3,671,591
Furniture and equipment	1,723,928	116,042	(10,477)	1,829,493
Vehicles	<u>802,749</u>	<u>53,225</u>	<u>(125,395)</u>	<u>730,579</u>
Total capital assets, being depreciated	<u>6,630,452</u>	<u>169,267</u>	<u>(135,872)</u>	<u>6,663,847</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(95,102)	(26,935)	-	(122,037)
Buildings and improvements	(2,763,014)	(62,500)	-	(2,825,514)
Furniture and equipment	(1,133,121)	(99,921)	8,641	(1,224,401)
Vehicles	<u>(573,801)</u>	<u>(44,472)</u>	<u>121,808</u>	<u>(496,465)</u>
Total accumulated depreciation	<u>(4,565,038)</u>	<u>(233,828)</u>	<u>130,449</u>	<u>(4,668,417)</u>
Governmental activities capital assets, net	<u>\$ 2,321,444</u>	<u>\$ 3,863,674</u>	<u>\$ (5,423)</u>	<u>\$ 6,179,695</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 128,431
<u>Support Services:</u>	
Pupil	29,073
Administration	12,776
Fiscal	791
Operations and maintenance	193
Pupil transportation	60,697
Central	1,385
Extracurricular activities	<u>482</u>
Total depreciation expense	<u>\$ 233,828</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

10. CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, and in prior years, 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 assets consisting of equipment have been capitalized in the amount of the present value of the minimum lease payments at the time of acquisition which includes an addition in fiscal year 2005 for \$107,737. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$18,268 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, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 29,214
2007	26,220
2008	26,220
2009	26,220
2010	<u>6,554</u>
Total minimum lease payments	114,428
Less amount representing interest	<u>(17,301)</u>
Total	<u>\$ 97,127</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

11. LONG-TERM OBLIGATIONS

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

	Interest Rate	Balance Outstanding 06/30/04	Additions	Reductions	Balance Outstanding 06/30/05	Amounts Due in One Year
Governmental Activities:						
Asbestos removal loan	0.00%	\$ 4,136	\$ -	\$ (4,136)	\$ -	\$ -
Energy conservation bonds	5.30%	306,000	-	(51,000)	255,000	51,000
General obligation bonds	1.75-5.0%	14,600,000	-	(200,000)	14,400,000	200,000
Bond anticipation notes	2.02%	2,300,000	-	(2,300,000)	-	-
Bond anticipation notes	2.597%	-	2,300,000	-	2,300,000	2,300,000
Capital lease obligation		7,658	107,737	(18,268)	97,127	22,307
Compensated absences	N/A	1,047,710	37,756	(338,811)	746,655	76,718
Total long-term obligations, governmental activities		<u>\$ 18,265,504</u>	<u>\$ 2,445,493</u>	<u>\$ (2,912,215)</u>	17,798,782	<u>\$ 2,650,025</u>
Unamortized premium					183,609	
Total long-term obligations					<u>\$ 17,982,391</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 was retired from the debt service fund.

Energy Conservation Bonds - On September 25, 2003, the District issued bonds in the amount of \$357,000. The bonds were issued for the purpose of upgrading buildings owned by the District to reduce energy consumption. The bonds were issued at 5.30% for 7 years with semi-annual payments due in June and December. The bonds will be retired from the 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 FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

Bond Anticipation Notes - On November 24, 2004, the District reissued \$2,300,000 in general obligation notes to provide funds for the school facilities project. These notes are general obligations of the District for which the full faith and credit of the District pledged for repayment. These unmatured obligations of the District are accounted for in the statement of net assets. Principal and interest will be recorded in the debt service fund. The source of repayment is the current 16.9 mill levy.

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 Construction Bonds	Interest on Construction Bonds	Total	Principal on Energy Conservation Bonds	Interest on Energy Conservation Bonds	Total
2006	\$ 200,000	\$ 593,850	\$ 793,850	\$ 51,000	\$ 12,336	\$ 63,336
2007	230,000	589,800	819,800	51,000	9,596	60,596
2008	285,000	584,650	869,650	51,000	6,915	57,915
2009	315,000	578,453	893,453	51,000	4,145	55,145
2010	365,000	570,544	935,544	51,000	1,389	52,389
2011 - 2015	2,015,000	2,659,661	4,674,661	-	-	-
2016 - 2020	2,425,000	2,239,717	4,664,717	-	-	-
2021 - 2025	3,005,000	1,628,090	4,633,090	-	-	-
2026 - 2030	3,810,000	816,357	4,626,357	-	-	-
2031 - 2032	1,750,000	16,799	1,766,799	-	-	-
Total	\$ 14,400,000	\$ 10,277,921	\$ 24,677,921	\$ 255,000	\$ 34,381	\$ 289,381

12 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 2005, 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	\$23,208,683
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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

12 RISK MANAGEMENT (Continued)

A. Comprehensive (Continued)

<u>Description</u>	<u>Amount</u>
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.

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 \$50,268 reported in the internal service fund at June 30, 2005, is based on an estimate provided by Self Funded Plans, 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>
2005	\$ 85,879	\$ 594,658	\$ (630,269)	\$ 50,268
2004	58,645	506,196	(478,962)	85,879

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

12 RISK MANAGEMENT (Continued)

C. Workers' Compensation Group Rating Plan

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

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

13. DEFINED BENEFIT PENSION PLAN

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 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 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$184,912, \$184,373 and \$178,872, respectively; 36% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$118,752, represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

13. DEFINED BENEFIT PENSION PLAN (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary 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 for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$624,000, \$577,829, and \$502,896, respectively; 85% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$95,696 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 were \$13,309 made by the District and \$23,034 made by plan members.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

13. DEFINED BENEFIT PENSION PLAN (Continued)

C. Social Security System

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

14. 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$44,576 during fiscal 2005.

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

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$109,783 during the 2005 fiscal year.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

15. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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	\$ 192,134
Net adjustment for revenue accruals	(12,163)
Net adjustment for expenditure accruals	(63,877)
Net adjustment for other sources/uses	89,197
Adjustment for encumbrances	<u>177,481</u>
GAAP basis	<u>\$ 382,772</u>

16. CONTINGENCIES

A. Grants

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

B. Litigation

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

17. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, 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, 2004	\$ 60,306	\$ -	\$ 75,000
Current year set-aside requirement	176,175	176,175	-
Qualifying disbursements	<u>(220,148)</u>	<u>(511,565)</u>	<u>-</u>
Total	<u>\$ 16,333</u>	<u>\$ (335,390)</u>	<u>\$ 75,000</u>
Cash balance carried forward to FY 2006	<u>\$ 16,333</u>	<u>\$ -</u>	<u>\$ 75,000</u>

A schedule of the restricted assets at June 30, 2005 follows:

Amounts restricted for textbooks/instructional supplies	\$ 16,333
Amount restricted for budget stabilization	<u>75,000</u>
Total restricted assets	<u>\$ 91,333</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

18. CONTRACTUAL COMMITMENTS:

The District had the following contractual commitments outstanding at fiscal year end:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Remaining</u>
Fanning/Howey Associates, Inc.	\$ 1,786,012	\$ (1,345,849)	\$ 440,163
George J. Igel & Co., Inc.	1,231,650	(1,225,398)	6,252
H.C. Nutting Company	35,965	(15,965)	20,000
The Altman Company	2,974,319	(852,926)	2,121,393
Lepi Enterprises	118,176	(116,488)	1,688
Dick Houston Plumbing and HVAC	4,877,000	(57,287)	4,819,713
Accurate Electric Construction	2,785,000	(105,622)	2,679,378
Dorsey Construction Company	3,426,000	(284,279)	3,141,721
A.H. Sturgill Roofing, Inc.	533,823	(68,116)	465,707
Simplex Grinnell	408,230	(8,966)	399,264
The Kenny Huston Co.	1,274,000	(65,396)	1,208,604
R.E. Forshee Co. Inc.	970,400	-	970,400
Wasserstrom Co.	241,170	-	241,170
Dave York Sports Inc.	77,337	-	77,337
Stonecreek Interior Systems	547,500	-	547,500
Farnham Equipment Co.	383,700	-	383,700
C&T Design Equipment Co. Inc.	128,690	-	128,690
Thysson Krup Elevator Corp.	42,000	-	42,000
M&D Blacktop and Sealing	96,000	-	96,000
American Glass Services Inc.	645,000	-	645,000
Re:Source Ohio	458,992	-	458,992
Kastra Painting	228,150	-	228,150
Bovis Lend-Lease	180,000	(61,237)	118,763
Total Contracts Outstanding	<u>\$ 23,449,114</u>	<u>\$ (4,207,529)</u>	<u>\$ 19,241,585</u>

19. SUBSEQUENT EVENT

On November 29, 2005, the District will issue \$2,300,000 in School Facilities Construction and Improvement Bonds Anticipation Notes to retire \$2,300,000 in School Facilities Construction and Improvement Bond Anticipation Notes maturing November 29, 2005.

THIS PAGE INTENTIONALLY LEFT BLANK

JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$ -	\$ 32,188	\$ -	\$ 32,188
National School Breakfast Program	048256-05PU-2004	10.553	210	-	210	-
	048256-05PU-2005		1,309	-	1,309	-
Total National School Breakfast Program			1,519	-	1,519	-
National School Lunch Program	048256-LLP1-2004	10.555	105	-	105	-
	048256-LLP1-2005		562	-	562	-
	048256-LLP4-2004		14,976	-	14,976	-
	048256-LLP4-2005		91,516	-	91,516	-
Total National School Lunch Program			107,159	-	107,159	-
Total U.S. Department of Agriculture - Nutrition Cluster			108,678	32,188	108,678	32,188
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I Grant to Local Education Agencies	048256-C1S1-2004	84.010	6,853	-	12,008	-
	048256-C1S1-2005		86,075	-	82,247	-
Total Title I Grant to Local Education Agencies			92,928	-	94,255	-
Special Education Grants to States	048256-6BSD-2003-P	84.027	-	-	294	-
	048256-6BSD-2004-P		18,750	-	45,978	-
	048256-6BSD-2005		10,313	-	11,616	-
	048256-6BSF-2005		262,905	-	262,905	-
Total Special Education Grants to States			291,968	-	320,793	-
Safe and Drug Free Schools and Communities	048256-DRS1-2004	84.186	(537)	-	-	-
	048256-DRS1-2005		6,762	-	6,287	-
Total Safe and Drug Free Schools and Communities			6,225	-	6,287	-
State Grants for Innovative Programs	048256-C2S1-2005	84.298	5,525	-	5,525	-
Education Technology State Grants	048256-TJS1-2004	84.318	102	-	-	-
	048256-TJS1-2005		3,695	-	3,225	-
Total Education Technology State Grants			3,797	-	3,225	-
Improving Teacher Quality State Grants	048256-TRS1-2004	84.367	2,035	-	4,149	-
	048256-TRS1-2005		36,096	-	36,044	-
Total Improving Teacher Quality State Grants			38,131	-	40,193	-
Total U.S. Department of Education			438,574	-	470,278	-
Total Federal Awards			\$ 547,252	\$ 32,188	\$ 578,956	\$ 32,188

The accompanying notes are an integral part of this schedule.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPT AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C – REFUND OF PRIOR YEAR RECEIPTS TO THE OHIO DEPARTMENT OF EDUCATION

The Schedule includes a negative receipt amount for refund of prior year receipts to the Ohio Department of Education. This refund is due to the expiration of period of availability and is as follows:

Grant	CFDA Number	Grant Year	Amount of Repayment
Safe and Drug Free Schools and Communities	84.186	2004	\$537



Auditor of State Betty Montgomery

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

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 Jefferson Local School District, Madison County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 18, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated November 18, 2005, we reported other matters related to noncompliance we deemed immaterial.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Jefferson City School District
Madison County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

November 18, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Jefferson City School District
Madison County
Independent Accountants' Report on Compliance With
Requirements Applicable to Each Major Federal Program
And on Internal Control Over Compliance in Accordance
With OMB Circular A-133
Page 2

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

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

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

Betty Montgomery
Auditor of State

November 18, 2005

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	No
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education CFDA#: 84.027 Nutrition Cluster CFDA#:10.550, 10.553 & 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
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
DECEMBER 27, 2005**