



Mary Taylor, CPA  
Auditor of State



**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Jefferson Area Local School District, Ashtabula County, Ohio (the School District), as of and for the year ended June 30 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Also, the Ohio Revised Code requires the District to set-aside certain general fund revenue amounts into various reserves. The reserves are calculated and presented on a cash basis, and Note 16 of the report has the statutory reserves reflected. However, the District was not able to provide any documentation on the amounts for qualifying disbursements for the Textbook Reserve, \$153,763, or the Capital Maintenance Reserve, \$292,891. We therefore cannot reasonably determine whether the amounts of these qualifying disbursements are fairly stated in the notes to the financial statements.

In our opinion, except for the effects of such adjustments or disclosures, if any, as might have been necessary had we been able to examine certain information regarding source documents for athletic events reported in the remaining fund information, and except for the omission of the information discussed in the preceding paragraph, of not providing adequate support for the qualifying disbursements for the two reserve accounts for the note disclosure, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the remaining fund information of the Jefferson Area Local School District, Ashtabula County, Ohio, as of June 30, 2004, and the changes in financial position thereof and the respective budgetary comparison for the General Fund and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



**Mary Taylor, CPA**  
Auditor of State

September 14, 2007

**Jefferson Area Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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As management of the Jefferson Area Local School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

- For governmental activities, net assets increased \$582 thousand, which represents a 8.5 percent increase from 2003.
- General revenues accounted for over \$14.9 million in revenue or 91 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.5 million or 9 percent of total governmental revenues of \$16.4 million.
- The District had \$15.8 million in expenses related to governmental activities; only \$1.5 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and grants and entitlements not restricted to specific programs) of \$14.9 million were adequate to provide for these programs.
- General fund had \$14.8 million in revenues and \$14 million in expenditures. The general fund's fund balance increased to \$2.6 million from \$2.3 million.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District basic financial statements comprise three components: (1) government-wide statements, (2) fund financial statements, and (3) notes to the basic financial statements.

**Government-wide Financial Statements** The government-wide financial statements are designed to provide reader with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District include instruction, supporting service, operation of non-instructional services, extracurricular activities, and interest and fiscal charges.

The government-wide financial statements can be found on pages 14-15 of this report.

**Jefferson Area Local School District**  
**Ashtabula County**  
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For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like the state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary 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 balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The basic fund financial statements can be found on pages 16-20 of this report.

**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary fund is not reflected in the government-wide financial statement because the resources of these funds are not available to support the District's own programs. The accounting used for fiduciary fund is much like that used for proprietary fund.

The basic fiduciary fund financial statements can be found on page 21-22 of this report.

**Notes to the 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. The notes to the financial statements can be found starting on page 23 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In this case of the District, assets exceeded liabilities by \$7 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, approximately \$5 million, represents its investment in capital assets (e.g., land, buildings, equipments, furniture, and vehicles), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



**Jefferson Area Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

**Jefferson Area Local School District's Net Assets**  
**(In Millions)**

	<b>Governmental Activities</b>	
	2004	2003
<b>Assets:</b>		
Current and Other Assets	\$ 8.66	\$ 6.49
Capital Assets, Net Accumulated Depreciation	5.52	5.68
<i>Total Assets</i>	14.18	12.17
<b>Liabilities:</b>		
Current Liabilities	5.08	3.45
Long-term Liabilities	1.64	1.84
<i>Total Liabilities</i>	6.72	5.29
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	5.07	5.19
Restricted	0.80	0.35
Unrestricted	1.59	1.34
<i>Total Net Assets</i>	\$ 7.46	\$ 6.88

An additional portion of the District's net assets, \$0.8 million, reflects resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net asset (\$1.45 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

The government's net assets increased just under \$0.6 million during the current fiscal year. Most of the increase is attributable to operating grants and contributions and unrestricted grants and entitlements.

**Jefferson Area Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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**Governmental Activities.** Governmental activities increased the District's net assets by nearly \$0.6 million, thereby accounting for 6 percent of the total growth in the net assets of the District. Key elements of this increase are as follows:

- Program revenues increased by \$229,705 during the current fiscal year. Charges for service contributed 86 percent of these increases, which indicating an increase in demand for services to the students.
- General revenues increased by \$285,377. Grants and entitlement sought the larger shares of these increases, approximately 77 percent, which is due to the increase in foundation funding from the state.

For the most part, increases in expenses closely paralleled inflation and growth in demand for services. The District spent just under \$16 million in the current year, which was almost the same as previous year. Among all expenses, expenses in fiscal, and operation and maintenance of plant increased the most, approximately \$1.5 million, to total of \$3.5 million. The surge of expenses in fiscal was a result of the District began to use fiscal to account for the severance payments to the retired employees in fiscal year 2004.

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

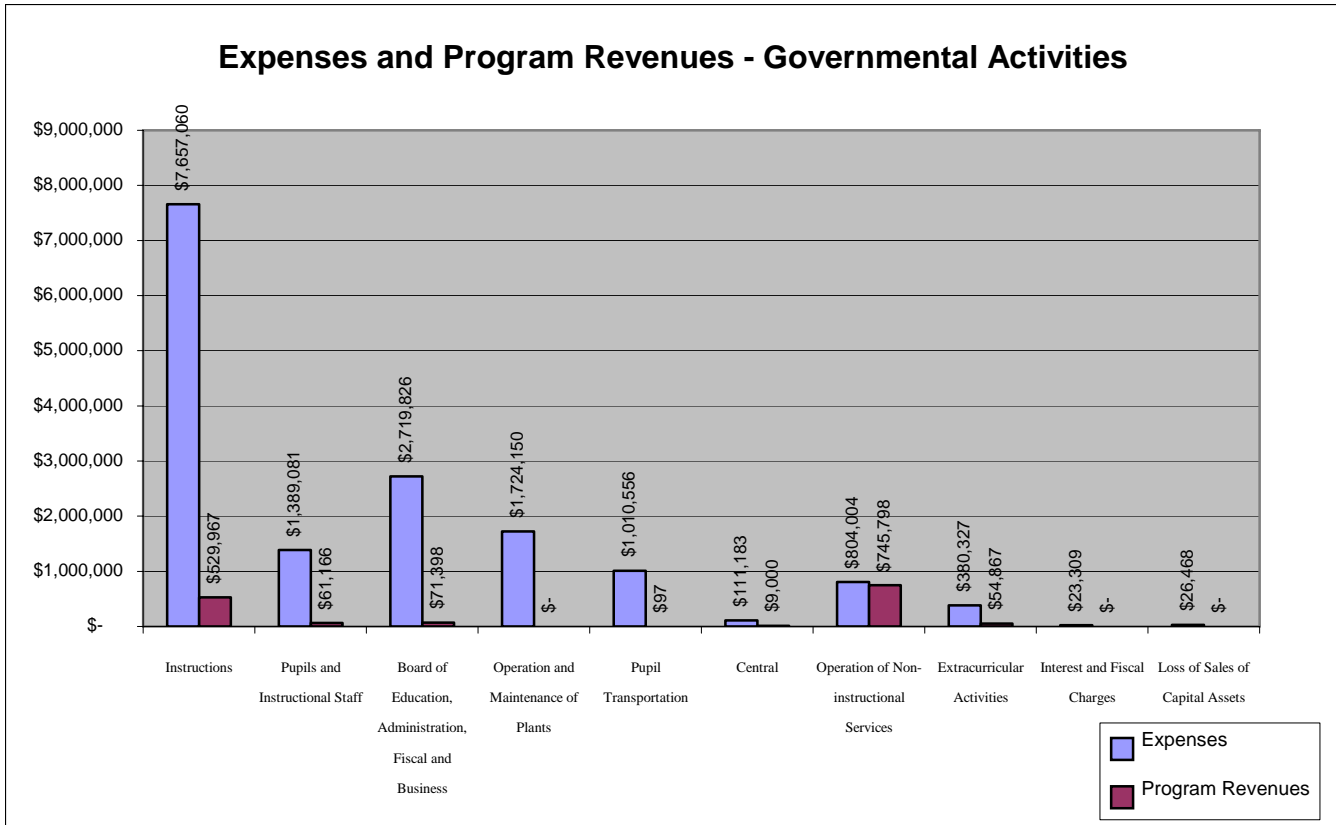
Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 34 percent of revenue for governmental activities for Jefferson Area Local School District in fiscal year 2004, a slight increase from prior years.

**Jefferson Area Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

**Jefferson Area Local School District's Changes in Net Assets**

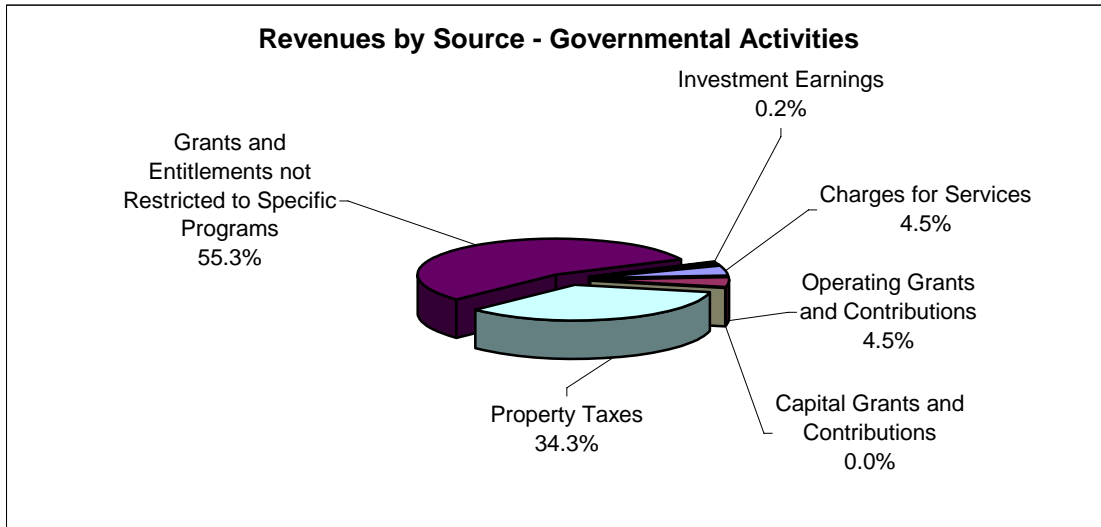
	Governmental	
	Activities	
	2004	2003
<b>Revenue:</b>		
Program Revenues:		
Charges for Services and Sales	\$ 732,492	\$ 534,668
Operating Grants and Contributions	736,801	707,920
Capital Grants and Contributions	3,000	-
General Revenues:		
Property Taxes	5,639,176	5,591,778
Grants and Entitlements	9,090,339	8,869,971
Investment Earnings	33,475	51,099
Miscellaneous	192,542	157,307
<b>Total Revenues</b>	<b>16,427,825</b>	<b>15,912,743</b>
<b>Expenses:</b>		
Instructions:		
Regular	6,401,966	7,509,466
Special	1,102,964	1,288,141
Vocational	152,130	107,171
Other	-	175
Support Services:		
Pupils	1,196,812	1,439,468
Instructional Staff	192,269	191,890
Board of Education	44,454	10,494
Administration	924,490	1,016,434
Fiscal	1,737,484	434,228
Business	13,398	13,558
Operation and Maintenance of Plant	1,724,150	1,483,428
Pupil Transportation	1,010,556	1,079,406
Central	111,183	133,101
Operation of Non-instructional Services	804,004	805,578
Extracurricular Activities	380,327	363,996
Fiscal and Interest Charges	23,309	23,447
Loss on Sales of Capital Assets	26,468	-
<b>Total Expenses</b>	<b>15,845,964</b>	<b>15,899,981</b>
Changes in Net Assets	581,861	12,762
Beginning Net Assets	6,876,823	6,880,504
Prior Period Adjustments	-	(16,443)
Ending Net Assets	<b>\$ 7,458,684</b>	<b>\$ 6,876,823</b>

**Jefferson Area Local School District  
Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*



**Jefferson Area Local School District  
Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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**Financial Analysis of the Government's Funds**

**Governmental Funds.** Information about the District's major fund starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16.4 million and expenditures of \$15.7 million. The total governmental fund balance increased nearly \$0.7 million.

Key factors in this increased of fund balance for the major governmental fund is as follows:

- While the expenditures in General Fund decreased \$74,026, the revenues increased significantly \$452,586, and it resulted in a net change in fund balance of \$0.3 million.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2004 the District amended its General Fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

**Jefferson Area Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

**Capital Assets and Debt Administration**

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2004, amount to \$5.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and vehicles. The total decrease in the District's investment in capital assets for the current fiscal year was 2.8 percent.

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

- The District replaced two buses with two new buses for \$117,774.
- \$88,355 of computers were purchased to upgrade the existing technology for instruction and administration purposes.

**Jefferson Area Local School District's Capital Assets  
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 540,800	\$ 540,800
Land Improvements	359,105	383,853
Buildings and Improvements	2,716,175	2,912,193
Furniture/Equipment/Fixtures	1,291,375	1,240,751
Vehicles	608,828	596,032
Total Capital Assets, Net	\$ 5,516,283	\$ 5,673,629

Additional information on the District's capital assets can be found in note 7 of the basic financial statements.

**Debt.** At June 30, 2004, the District had \$444,472 in notes debt. Of this total, \$46,276 is due within one year and \$398,196 is due more than one year. The following table summarizes the bonds and notes outstanding.

**Jefferson Area Local School District's Outstanding Debt  
General Obligation Bonds**

	Governmental Activities	
	2004	2003
Asbestos Notes	\$ 39,472	\$ 50,748
Energy Conservation Notes	405,000	440,000
Total	\$ 444,472	\$ 490,748

The District retired \$46,276 of note debts in fiscal year 2004. Additional information on the District's short-term debt and long-term debt can be found in note 9 of the basic financial statements.

**Jefferson Area Local School District**  
**Ashtabula County**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
*Unaudited*

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**Current Financial Related Activities**

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

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

The District also faces the challenge of developing an overall facilities plan that will address the future of our two aging elementary buildings. Rock Creek and Jefferson Elementary both were put in use initially well over one hundred years ago. Any building program pursued will require a local funding component.

**Contacting the District's Financial Management**

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

**Jefferson Area Local School District**  
*Statement of Net Assets*  
*June 30, 2004*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,586,884
Receivables:	
Taxes	5,975,860
Accounts	220
Intergovernmental	81,262
Materials and Supplies Inventory	17,847
Nondepreciable Capital Assets	540,800
Depreciable Capital Assets, Net	4,975,483
 <i>Total Assets</i>	 14,178,356
<b>Liabilities</b>	
Accounts Payable	10,587
Accrued Wages and Benefits	1,152,934
Pension Obligation Payable	491,572
Intergovernmental Payable	94,518
Accrued Interest Payable	1,655
Unearned Revenue	3,327,360
Long-Term Liabilities:	
Due Within One Year	117,458
Due Within More Than One Year	1,523,588
 <i>Total Liabilities</i>	 6,719,672
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	5,071,811
Restricted for:	
Endowment:	
Expendable	80
Nonexpendable	1,000
Capital Projects	610,861
Other Purposes	180,245
Unrestricted (Deficit)	1,594,687
 <i>Total Net Assets</i>	 \$ 7,458,684

See accompanying notes to the basic financial statements



**Jefferson Area Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 6,401,966	\$ 218,949	\$ 64,143	\$ 3,000	\$ (6,115,874)
Special	1,102,964	-	243,875	-	(859,089)
Vocational	152,130	-	-	-	(152,130)
Support Services:					
Pupils	1,196,812	-	5,051	-	(1,191,761)
Instructional Staff	192,269	-	56,115	-	(136,154)
Board of Education	44,454	-	60,861	-	16,407
Administration	924,490	-	10,537	-	(913,953)
Fiscal	1,737,484	-	-	-	(1,737,484)
Business	13,398	-	-	-	(13,398)
Operation and Maintenance of Plant	1,724,150	-	-	-	(1,724,150)
Pupil Transportation	1,010,556	97	-	-	(1,010,459)
Central	111,183	-	9,000	-	(102,183)
Operation of Non-Instructional Services	804,004	458,579	287,219	-	(58,206)
Extracurricular Activities	380,327	54,867	-	-	(325,460)
Interest and Fiscal Charges	23,309	-	-	-	(23,309)
Loss on Sale of Capital Assets	26,468	-	-	-	(26,468)
<i>Total Governmental Activities</i>	<u>\$ 15,845,964</u>	<u>\$ 732,492</u>	<u>\$ 736,801</u>	<u>\$ 3,000</u>	<u>\$ (14,373,671)</u>

**General Revenues**

Property Taxes Levied for:	
General Purposes	\$ 5,317,180
Debt Service	30,842
Capital Projects	291,154
Grants and Entitlements not Restricted to Specific Programs	9,090,339
Investment Earnings	33,475
Miscellaneous	192,542
<i>Total General Revenues</i>	<u>14,955,532</u>
Changes in Net Assets	581,861
<i>Net Assets Beginning of Year, Restated (See Note 17)</i>	<u>6,876,823</u>
<i>Net Assets End of Year</i>	<u>\$ 7,458,684</u>

See accompany notes to the basic financial statements

**Jefferson Area Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2004*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,000,644	\$ 584,318	\$ 2,584,962
Restricted Cash and Cash Equivalents	1,922	-	1,922
Receivables:			
Taxes	5,587,994	387,866	5,975,860
Accounts	109	111	220
Intergovernmental	-	81,262	81,262
Accrued Interest	-	-	-
Interfund Receivable	5,999	-	5,999
Inventory Held for Resale	-	-	-
Materials and Supplies Inventory	1,216	16,631	17,847
<i>Total Assets</i>	<u>7,597,884</u>	<u>1,070,188</u>	<u>8,668,072</u>
<b>Liabilities</b>			
Accounts Payable	9,935	652	10,587
Accrued Wages and Benefits	1,086,598	66,336	1,152,934
Pension Obligation Payable	214,004	11,543	225,547
Interfund Payable	-	5,999	5,999
Intergovernmental Payable	88,067	6,451	94,518
Mature Bonds and Coupons Payable	-	-	-
Deferred Revenue	3,560,506	324,315	3,884,821
<i>Total Liabilities</i>	<u>4,959,110</u>	<u>415,296</u>	<u>5,374,406</u>
<b>Fund Balances</b>			
Reserved for:			
Encumbrances	52,093	33,384	85,477
Property Taxes	2,027,488	110,292	2,137,780
Budgetary	1,922	-	1,922
Inventory	1,216	16,631	17,847
Prepaid Items	32,950	-	32,950
Debt Service	-	(37,087)	(37,087)
Endowment	-	1,000	1,000
Unreserved:			
Undesignated, Reported in:			
General Fund	523,105	-	523,105
Special Revenue Funds	-	49,644	49,644
Capital Projects Funds	-	443,862	443,862
Debt Service	-	37,129	37,129
Endowment Fund	-	37	37
<i>Total Fund Balances</i>	<u>2,638,774</u>	<u>654,892</u>	<u>3,293,666</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 7,597,884</u>	<u>\$ 1,070,188</u>	<u>\$ 8,668,072</u>

See accompany notes to the basic financial statements

**Jefferson Area Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

<b>Total Governmental Fund Balances</b>		\$ 3,293,666
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,516,283
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	510,720	
Intergovernmental	46,741	
Total		557,461
Long-term liabilities, including bonds, payable, are not due and payable in the current period and therefore are not reported in the funds.		
Notes Payable	(444,472)	
Accrued Interest Payable	(1,655)	
Compensated Absences Payable	(1,196,574)	
Pension Obligation Payable	(266,025)	
Total		(1,908,726)
<b><i>Net Assets of Governmental Activities</i></b>		<b>\$ 7,458,684</b>

See accompany notes to the basic financial statements

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**Jefferson Area Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 5,285,991	\$ 320,107	\$ 5,606,098
Intergovernmental	9,047,204	778,791	9,825,995
Interest	33,409	66	33,475
Tuition and Fees	218,949	-	218,949
Extracurricular Activities	-	87,089	87,089
Transportation	97	-	97
Food Service	-	391,632	391,632
Classroom Materials and Fees	-	28,729	28,729
Miscellaneous	192,542	5,996	198,538
<i>Total Revenues</i>	<u>14,778,192</u>	<u>1,612,410</u>	<u>16,390,602</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,154,436	105,851	7,260,287
Special	894,080	331,702	1,225,782
Vocational	162,793	-	162,793
Support Services:			
Pupils	1,214,334	11,072	1,225,406
Instructional Staff	164,652	52,457	217,109
Board of Education	15,004	29,450	44,454
Administration	996,581	12,801	1,009,382
Fiscal	569,467	10,038	579,505
Business	13,398	-	13,398
Operation and Maintenance of Plant	1,352,426	177,358	1,529,784
Pupil Transportation	969,201	70,887	1,040,088
Central	100,568	9,490	110,058
Operation of Non-Instructional Services	52,499	767,299	819,798
Extracurricular Activities	308,700	57,858	366,558
Capital Outlay	16,505	5,955	22,460
Dent Service:			
Principal	-	46,276	46,276
Interest and Fiscal Charges	-	21,654	21,654
<i>Total Expenditures</i>	<u>13,984,644</u>	<u>1,710,148</u>	<u>15,694,792</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>793,548</u>	<u>(97,738)</u>	<u>695,810</u>
<b>Other Financing Sources (Uses)</b>			
Proceed from Sale of Capital Assets	3,000	-	3,000
Transfer In	-	479,361	479,361
Transfer Out	(471,655)	(7,706)	(479,361)
<i>Total Other Financing Sources (Uses)</i>	<u>(468,655)</u>	<u>471,655</u>	<u>3,000</u>
<i>Net Change in Fund Balances</i>	324,893	373,917	698,810
<i>Fund Balances Beginning of Year</i>	2,313,881	282,042	2,595,923
<i>Increase (Decrease) in Reserved for Inventory</i>	<u>-</u>	<u>(1,067)</u>	<u>(1,067)</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,638,774</u>	<u>\$ 654,892</u>	<u>\$ 3,293,666</u>

See accompany notes to the basic financial statements

**Jefferson Area Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in the Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004*

**Net Change in Fund Balances - Total Governmental Funds** \$ 698,810

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Assets Additions	386,891
Current Year Depreciation	<u>(514,769)</u>

Total (127,878)

Governmental funds only report the disposal of assets to the extent proceeds are received from that sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets.

Loss on Disposal of Capital Assets	(29,468)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	33,078
Intergovernmental	<u>4,145</u>

Total 37,223

Repayment of notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Proceeds of long-term debt is revenue in the governmental funds as opposed to a liability in the statement of net assets.

Notes Principal Payment	46,276
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Interest is reported as expenditure when due in the governmental funds, but is accrued on outstanding debt on the statements of activities.

(1,655)

Inventory is reported as an asset when purchased and defer the recognition of an expenditure until the period in which the inventory is consumed. However, the net effect of the transaction involving inventory is to increase (decrease) expenses in the governmental activities.

(1,067)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not required the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Pension Obligation Payable	(146,533)
Compensated Absences Payable	<u>106,153</u>

Total (40,380)

*Change in Net Assets of Governmental Activities* \$ 581,861

See accompany notes to the basic financial statements

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**Jefferson Area Local School District**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2004

	Budgeted Amount		Actual	Variance with Final Budget Over/ (Under)
	Original	Final		
<i>Revenue:</i>				
Taxes	\$ 5,226,746	\$ 5,226,746	\$ 5,226,746	\$ -
Intergovernmental	9,047,972	9,047,972	9,047,972	-
Interest	33,409	33,409	33,409	-
Tuition	221,728	221,728	221,728	-
Transportation Fees	97	97	97	-
Miscellaneous	192,455	192,455	192,455	-
Total Revenues	14,722,407	14,722,407	14,722,407	-
<i>Expenditures:</i>				
Instruction:				
Regular	7,323,679	7,323,679	7,323,679	-
Special	936,302	936,302	936,302	-
Vocational	164,344	164,344	164,344	-
Support Services:				
Pupils	1,277,768	1,277,768	1,277,768	-
Instructional Support	170,338	170,338	170,338	-
Board of Education	15,108	15,108	15,108	-
Administration	994,471	994,471	994,471	-
Fiscal	402,462	402,462	402,462	-
Business	11,882	11,882	11,882	-
Operation and Maintenance of Plant	1,393,825	1,393,825	1,393,825	-
Pupil Transportation	1,020,685	1,020,685	1,020,685	-
Central	115,018	115,018	115,018	-
Operation of Non-Instructional Services	54,296	54,296	54,296	-
Extracurricular Activities	312,517	312,517	312,517	-
Capital Outlay	16,505	16,505	16,505	-
Total Expenditures	14,209,200	14,209,200	14,209,200	-
Excess of Revenues Over/ (Under) Expenditures	513,207	513,207	513,207	-
<i>Other Financing Sources/(Uses):</i>				
Proceeds from Sale of Fixed Assets	3,000	3,000	3,000	-
Refund of Prior Year Expenditures	3,143	3,143	3,143	-
Refund of Prior Year Receipts	(73)	(73)	(73)	-
Advance In	78,318	78,318	78,318	-
Advance Out	(5,999)	(5,999)	(5,999)	-
Transfer Out	(471,655)	(471,655)	(471,655)	-
Total Other Financing Sources/(Uses)	(393,266)	(393,266)	(393,266)	-
Net Change in Fund Balance	119,941	119,941	119,941	-
Fund Balance/(Deficit) at the Beginning of Year	1,524,296	1,524,296	1,524,296	-
Prior year encumbrances appropriated	296,192	296,192	296,192	-
Fund Balance/(Deficit) at the End of Year	<u>\$ 1,940,429</u>	<u>\$ 1,940,429</u>	<u>\$ 1,940,429</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

**Jefferson Area Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2004*

	Private-Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 10,483	\$ 50,886
Taxes Receivables	-	20
<i>Total Assets</i>	10,483	50,906
<b>Liabilities</b>		
Due to Students	-	50,906
<i>Total Liabilities</i>	-	\$ 50,906
<b>Net Assets</b>		
Held in Trust for Scholarships	10,483	
<i>Total Net Assets</i>	\$ 10,483	

See accompanying notes to the basic financial statements

**Jefferson Area Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Year Ended June 30, 2004*

	Private Purpose Trust
	Scholarship
<b>Addition</b>	
Interest	\$ 178
<i>Total Addition</i>	178
<b>Deduction</b>	600
<i>Change in Net Assets</i>	(422)
<i>Net Assets Beginning of Year</i>	10,905
<i>Net Assets End of Year</i>	\$ 10,483

See accompanying notes to the basic financial statements



**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District is the 261<sup>st</sup> largest in the State of Ohio (out of approximately 740 public and community school districts) in terms of enrollment. It is staffed by 106 non-certified employees and 135 certified full-time teaching personnel who provide services to 2,180 students and other community members. The District currently operates 3 instructional buildings, 1 administrative building, and 2 garages.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

***JOINTLY GOVERNED ORGANIZATIONS***

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and two treasurers, one from each county. The District was not represented on the Governing Board during fiscal year 2004. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 347 Park Avenue, Warren, Ohio, 44481.

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

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

*INSURANCE PURCHASING POOLS*

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 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. Fiduciary funds also use the accrual basis of accounting.

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

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

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

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

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Ashtabula County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the object level of expenditures within each function within each fund, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004. The original budgeted expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund represents the original appropriations approved by the Board of Education for fiscal year 2004. The final budgeted expenditures reflect the final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control.

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

**F. Cash and Investments**

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

Under existing Ohio statutes, all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the Auxiliary Services special revenue fund, the Permanent fund, and the private purpose trust fund. Interest revenue credited to the general fund during fiscal 2004 amounted to \$33,475.

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

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

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

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least 20 years of current service with the District, or 15 years of service and 45 years of age, or 5 years of service and 50 years old were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Fund Balance Reserves**

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

**M. Net Assets**

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

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

**N. Estimates**

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

**O. Restricted Assets**

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



**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

**P. Interfund Activity**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

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

Deficit	
Non-major Governmental Funds	
Debt Service	\$1
EMIS	286
DPIA	549
Title I	41,142

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

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

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

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

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

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

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

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

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

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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

*Deposits:* At year-end, the carrying amount of the District's deposits was \$1,829,365 and the bank balance was \$2,135,968. Of the bank balance:

1. \$188,965 was covered by federal depository insurance; and
2. \$1,947,003 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

	Category 3	Carrying Value	Fair Value
Repurchase agreement	\$818,888	\$818,888	\$818,888

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 2,648,253	\$ -
Investments: Repurchase agreement	(818,888)	818,888
GASB Statement No. 3	\$ 1,829,365	\$ 818,888

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 5 - INTERFUND TRANSACTIONS**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Title II-A	\$ 5,999

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

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Fund:		
General	\$ -	\$ 471,655
Non-major Governmental Funds:		
Debt Service	1	-
Food Service	100,224	-
Title I	116,232	-
Miscellaneous Federal Grants	7,706	-
Permenant Improvement	-	7,706
Building	255,198	-
Total	\$ 479,361	\$ 479,361

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

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 6 - PROPERTY TAXES - (Continued)**

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Ashtabula County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$2,027,488 in the general fund and \$110,292 in the Permanent Improvement fund (a nonmajor governmental fund). This amount has been recorded as revenue.

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

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

	<u>2003</u>	<u>2004</u>
Real Property:		
Commercial/industrial	\$ 24,680,280	\$ 25,180,520
Residential/agricultural	156,879,660	159,284,100
Public Utilities	81,660	88,470
Personal Property:		
General	17,765,010	16,319,160
Public Utilities	<u>10,587,700</u>	<u>9,915,660</u>
Total	<u>\$ 209,994,310</u>	<u>\$ 210,787,910</u>
Tax rate per \$1,000 of assessed valuation	\$ 47.97	\$ 47.97

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

**NOTE 7 - CAPITAL ASSETS**

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

	Restated Balance 7/1/2003	Addition	Deletion	Balance 6/30/2004
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 540,800	\$ -	\$ -	\$ 540,800
<i>Total Capital Assets, not being depreciated:</i>	<u>540,800</u>	<u>-</u>	<u>-</u>	<u>540,800</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	983,578	-	-	983,578
Buildings and Improvements	6,300,484	3,000	-	6,303,484
Furniture, Equipment and Fixtures	3,203,366	250,617	(137,623)	3,316,360
Vehicles	1,294,823	133,274	(100,063)	1,328,034
<i>Total Capital Assets, being depreciated:</i>	<u>11,782,251</u>	<u>386,891</u>	<u>(237,686)</u>	<u>11,931,456</u>
Less Accumulated Depreciation:				
Land Improvements	(599,725)	(24,748)	-	(624,473)
Building and Improvements	(3,388,291)	(199,018)	-	(3,587,309)
Furniture, Equipment, and Fixtures	(1,962,615)	(192,314)	129,944	(2,024,985)
Vehicles	(698,791)	(98,689)	78,274	(719,206)
<i>Total Accumulated Depreciation</i>	<u>(6,649,422)</u>	<u>(514,769)</u>	<u>208,218</u>	<u>(6,955,973)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>5,132,829</u>	<u>(127,878)</u>	<u>(29,468)</u>	<u>4,975,483</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,673,629</u>	<u>\$ (127,878)</u>	<u>\$ (29,468)</u>	<u>\$ 5,516,283</u>

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 7 - CAPITAL ASSETS – (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 63,312
Special	2,164
Vocational	1,620
Support Services:	
Pupil	1,385
Instructional Staff	54,999
Administration	3,880
Fiscal	557
Operation and Maintenance of Plant	261,873
Pupil Transportation	98,321
Central	1,125
Operation of Non-instructional Services	10,741
Extracurricular Activities	<u>14,792</u>
 Total Depreciation Expense	 <u><u>\$ 514,769</u></u>

**NOTE 8 - RECEIVABLES**

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

Governmental Activities:	
Property taxes	\$ 5,975,860
Accounts	220
Intergovernmental	<u>81,262</u>
 Total	 <u><u>\$ 6,057,342</u></u>

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

**NOTE 9 - LONG-TERM OBLIGATIONS**

During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Balance 7/1/2003	Addition	Deletion	Balance 6/30/2004	Due in one year
Notes payable	\$ 490,748	\$ -	\$ (46,276)	\$ 444,472	\$ 46,276
Compensated Absences Payable	1,348,764	-	(152,190)	1,196,574	71,182
Total governmental activities	<u>\$ 1,839,512</u>	<u>\$ -</u>	<u>\$ (198,466)</u>	<u>\$ 1,641,046</u>	<u>\$ 117,458</u>

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

The annual maturities of the general obligation notes as of June 30, 2004, are as follows:

Fiscal Year Ended	Principal
2005	\$ 11,276
2006	11,276
2007	11,276
2008	5,644
Total	<u>\$ 39,472</u>

*Energy Conservation Notes* - The District issued Energy Conservation Notes in the amount of \$600,000 on March 3, 1998. The notes mature in December 2012 and have an average interest rate of 5.125%. The annual maturities of the general obligation bonds as of June 30, 2004, and related interest payments are as follows:

Fiscal Year Ended	Principal	Interest	Total
2005	\$ 35,000	\$ 19,859	\$ 54,859
2006	40,000	17,937	57,937
2007	40,000	15,887	55,887
2008	45,000	13,709	58,709
2009	45,000	11,403	56,403
2010-2013	200,000	21,267	221,267
Total	<u>\$ 405,000</u>	<u>\$ 100,062</u>	<u>\$ 505,062</u>

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



**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)**

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$18,970,913 and an unvoted debt margin of \$210,788.

**NOTE 10 - COMPENSATED ABSENCES**

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

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

The classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1-3	10
4-7	15
8-beyond	20

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

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

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

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

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

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

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss. The District maintains replacement cost insurance on buildings and contents in the amount of \$28,029,309 and \$125,000 in equipment breakdown coverage.

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 11 - RISK MANAGEMENT - (Continued)**

**B. Workers' Compensation**

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

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

**C. Health Insurance**

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

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2004, 5.46% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$404,668, \$237,544, and \$284,280, respectively; 20% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$323,365, represents the unpaid contribution for fiscal year 2004.

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS- (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$946,848, \$889,811, and \$890,016, respectively; 82% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$168,208 represents the unpaid contribution for fiscal year 2003.

**C. Social Security System**

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

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$304,344 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$368,739,000 and STRS had 118,853 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$222,443,805 and the target level was \$335.2 million. At June 30, 2003, 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 \$240,191 during the 2004 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

(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 GAAP basis to the budget basis for the general fund is as follows:

Net Change In Fund Balance	
General Fund	
GAAP basis	\$ 324,893
Net adjustment for revenue accruals	25,676
Net adjustment for expenditure accruals	(168,491)
Encumbrances	(62,137)
Budget basis	\$ 119,941

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. State School Funding Decision**

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

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

**D. Other Related Party Transactions**

The District is liable for the Rock Creek Sewer Assessment; this liability is taken directly from tax proceeds by the Ashtabula County Auditor. The assessment was issued in 1989 and matures in 2014. The balance at June 30, 2004 was \$15,180.

**Jefferson Area Local School District  
Ashtabula County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2004  
(Continued)**

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**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. Effective April 10, 2001, the District is no longer required to maintain a budget stabilization reserve. However, restrictions have been placed on the disposition of any balances remaining in the previously required budget reserve. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve	Budget Stablization	Total
Set-Aside Cash Balance, 7/1/03	\$ (159,585)	\$ -	\$ 1,922	\$ (157,663)
Current Year Required Set-Aside	292,891	292,891	-	585,782
Qualifying Disbursements	(153,763)	(292,891)	-	(446,654)
Total	<u>\$ (20,457)</u>	<u>\$ -</u>	<u>\$ 1,922</u>	<u>\$ (18,535)</u>
Cash Balance Carried Forward, to FY 2004	<u>\$ (20,457)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,457)</u>

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

**NOTE 17 – RESTATEMENT OF NET ASSETS**

Following the close of the previous fiscal year, the District discovered a misstatement on the previously reported capital assets. \$16,443 was reduced and the capital assets were stated at \$5,673,629 at the beginning of the fiscal year 2004.

The restatement of net assets is presented below:

Net assets, June 30, 2003	\$ 6,893,266
Restatement of capital assets, net of depreciation	<u>(16,443)</u>
Restated net assets, as of July 1, 2004	<u>\$ 6,876,823</u>

JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through The Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		\$41,790		\$41,790
<i>Nutrition Cluster:</i>						
National School Breakfast Program	05-PU-2003 05-PU-2004	10.553	\$4,515 28,222		\$4,515 28,222	
Sub-total - National School Breakfast Program			<u>32,737</u>		<u>32,737</u>	
National School Lunch Program	LL-P4-2003 LL-P4-2004	10.555	25,929 142,007		25,929 137,912	
Sub-total National School Lunch Program			<u>167,936</u>		<u>167,936</u>	
Total Nutrition Cluster			<u>200,673</u>		<u>200,673</u>	
<b>Total U.S. Department of Agriculture -- Nutrition Cluster</b>			<b>200,673</b>	<b>41,790</b>	<b>200,673</b>	<b>41,790</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through The Ohio Department of Education:</i>						
Grants to Local Educational Agencies Title I School Subsidy	C1-S1 03 C1-S1 04	84.010	(66) 214,957			214,957
Sub-total - Title I			<u>214,891</u>			<u>214,957</u>
Safe and Drug Free Schools Grant	DR-S1-2003 DR-S1-2004	84.186	(1,827) 10,417		0 8,500	
Sub-total - Safe and Drug Free Schools Grant			<u>8,590</u>		<u>8,500</u>	
Innovative Education Program Strategies Title V	C2-S1 2003 C2-S1 2004	84.298	(5,945) 8,207		(339) 2,450	
Sub-total - Title V			<u>2,262</u>		<u>2,111</u>	
Title II-D, Technology	TJS1-2003 TJS1-2004	84.318	2,277 834		2,470 235	
Sub-total - Enhancing Education through Technology			<u>3,111</u>		<u>2,705</u>	
Assistive Technology Infusion Project	ATS3-2002	84.352A	(313)		1,700	
Title II-A, Improving Teacher Quality	TRS1-2003 TRS1-2004	84.367	13,586 35,137		13,236 39,518	
Sub-total Title II-A - Improving Teacher Quality			<u>48,723</u>		<u>52,754</u>	
<b>Total -- U.S. Department of Education</b>			<b>277,264</b>		<b>282,727</b>	
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>						
<i>Passed Through Ohio Department of Development/ Office of Energy Efficiency</i>						
Ohio Schools Going Solar Grant	03-60	81.119	3,000		3,000	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed Through Ohio Department of Jobs and Family Services; Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
<i>Medicaid Cluster:</i>						
Medical Assistance Program - Title XIX - Community Alternative Funding System (CAFS)	FY2004	93.778	943		943	
State Children's Health Insurance Program (SCHIP)		93.676	70		70	
Sub-Total Medicaid Assistance Program (Cluster)			<u>1,013</u>		<u>1,013</u>	
<b>OFFICE OF LIBRARY SERVICES, INSTITUTE OF LIBRARY SERVICES, NATIONAL FOUNDATION OF THE ARTS AND HUMANITIES</b>						
<i>Passed Through The State Library of Ohio:</i>						
Library Services and Technology Act (LSTA) Mini Grant	VIII-6-04	45.310	22,230		22,230	
<b>Totals</b>			<b>\$504,180</b>	<b>\$41,790</b>	<b>\$509,643</b>	<b>\$41,790</b>

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—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 – MATCHING REQUIREMENTS**

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

**NOTE D- TRANSFERS/CARRYOVERS**

During 2004, the Ohio Department of Education (ODE) authorized the District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased the federal revenue in the program that the received the transfer or carryover. A detail listing of the transfers/carryovers are as follows:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Transfer Out</u>	<u>Transfer In</u>
84.186	Safe and Drug-Free Schools (DR-S1-03) Safe and Drug-Free Schools (DR-S1-04)	\$1,827	\$1,827
84.298	Innovative Ed. Program Strategies (C2-S1-03) Innovative Ed. Program Strategies (C2-S1-04)	5,945	5,945

**NOTE E – UNEXPENDED FUNDS**

The District returned \$313 of Assistive Technology Infusion Project Funds (CFDA No. 84.352A) monies to the Ohio Department of Education. This refund is reflective as a negative receipt in the accompanying Schedule.





# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Jefferson Area Local School District (the School District) as of and for the year ended June 30, 2004 which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 14, 2007. We qualified our report due to the School District's athletic program records, recorded as charges for services and extracurricular activities, being discarded and unavailable for audit. Also, we qualified our report because certain accounting records to support the note disclosure for the qualifying disbursements for the textbook reserve and capital maintenance reserve accounts were not presented for audit. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 through 2004-011.

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

We consider reportable conditions 2004-002 and 2004-003 listed above to be material weaknesses. In a separate letter to the School District's management dated September 14, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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### Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items, 2004-001 through 2004-009. In a separate letter to the School District's management dated September 14, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Mary Taylor, CPA**  
Auditor of State

September 14, 2007



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Jefferson Area Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

As described in item 2004-011 in the accompanying schedule of findings, the School District did not comply with requirements regarding Cash Management applicable to its Title II-A program. Compliance with those requirements is necessary, in our opinion, for the School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Jefferson Area Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

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### **Internal Control Over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings as item 2004-009.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not believe the reportable conditions described above are material weaknesses. We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated September 14, 2007.

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



**Mary Taylor, CPA**  
Auditor of State

September 14, 2007

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)()(i)</i>	Type of Financial Statement opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grant: CFDA # 84.010
<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?	Yes

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

**FINDING NUMBER 2004-001**

**Noncompliance Citation and Reportable Condition**

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

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

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

For the year ended June 30, 2004, the School District did not file an annual report with the Auditor of State's office and did not publish a notice in the paper that the report is available for review.

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

**Officials' Response**

These will be corrected in the future.

**FINDING NUMBER 2004-002**

**Noncompliance Citation and Material Weakness**

**Athletic Event Receipts**

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

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

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

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

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

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

1. Ticket Sales Report, pay-in order, and Treasurer's receipt forms should be retained by the athletic director.
2. The Athletic Director should review and sign off on the Ticket Sales Report.
3. When the deposits slips are sent to the Treasurer, the Treasurer should perform an internal audit function by comparing the Ticket Sales Report to the pay-in order and deposit slip. The Treasurer should sign off on the Ticket Sales Report.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

4. The Athletic Director should maintain a perpetual inventory of tickets purchased. This record should include:
  - a) Date tickets issued for sale;
  - b) Person responsible for receipt of tickets for sale;
  - c) Location of sale;
  - d) Athletic event and date;
  - e) Type of ticket (student, adult, presale);
  - f) Beginning and ending number of tickets sold; and
  - g) Total deposited with the Treasurer
  
5. The Treasurer should purchase the tickets that are to be sold for the athletic events. A perpetual inventory of tickets should be maintained within the Treasurer's Office and a record of the tickets in possession of the Athletic Department also being accounted for.
  
6. At the conclusion of the school year, unsold tickets should be turned into the Treasurer's office. A review should be made of the ticket sales for the school year by using the inventory, gate reports, and unused tickets to determine proper accountability of ticket sales.

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

**Officials' Response**

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

**FINDING NUMBER 2004-003**

**Noncompliance Citation and Material Weakness**

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

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

The Treasurer's worksheet for the set-asides was not complete. The worksheet listed the required amount (\$292,891), but did not contain amounts for credits or qualifying disbursements. The Set-Aside Note to the Basic Financial Statements reported qualifying disbursements of \$153,763 in the Textbook Reserve and \$292,891 in the Capital Maintenance Reserve. No support for these expenditures was in evidence.

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

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004  
(Continued)**

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

**Officials' Response**

The District will establish these cost centers as soon as possible.

**FINDING NUMBER 2004-004**

**Noncompliance Citation and Reportable Condition**

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

During fiscal year 2004, negative cash fund balances were noted throughout the year for the following funds:

<b>Fund</b>	<b>Dates</b>	<b>Range of Deficit Balances</b>
Food Service	July 2003 – May 2004	(\$54,096 ) – (\$100,268)
Title I	August 2003 – May 2004	(\$ 4,992) – (\$115,251)
Title II-D	August 2003 – October 2003	(\$1,050) – (\$1,903)
School Net Professional Development	September 2003 – October 2003	(\$ 420)
Improving Teacher Quality	May 2004	(\$2,420)

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

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

**Officials' Response**

The District will implement the recommendation by monitoring fund balances more closely.

**FINDING NUMBER 2004-005**

**Finding For Adjustments, Noncompliance Citation and Reportable Condition**

**Ohio Revised Code §'s 5705.14, 5705.15, and 5705.16** provide guidelines pertaining to the ability to effectuate inter-fund transfers.



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**Ohio Revised Code § 5705.14** states no transfer shall be made from one fund of a subdivision to any other fund, by order of the court or otherwise, except as follows (in part):

- The unexpended balance in a bond fund that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable.
- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision.
- The unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the bond retirement fund, and in the case of the bond retirement fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any other fund of the subdivision with the approval of the court of common pleas of the county in which such division is located.
- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund.
- Money may be transferred from the general fund to any other fund of the subdivision.
- Except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the Board members (i.e., a two thirds vote is not required for general fund transfers though a resolution is required). *See also* 1989 Ohio Attorney General Opinion Number 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds).

**Ohio Revised Code § 5705.15** provides that in addition to the transfers listed above, which are authorized in **Ohio Revised Code § 5705.14**, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and of the Court of Common Pleas, may transfer from one fund to another any public funds under its supervision, except the proceeds or balances of:

- loans,
- bond issues,
- special levies for the payment of loans or bond issues,
- the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, and
- the proceeds or balances of any license fees imposed by law for a specified purpose.

There was one issue noted with the Board's approval and posting of the following transfers:

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**Illegal Transfer**

In June 2004, the Board approved a transfer of \$7,706 from the Capital Project – Permanent Improvement Tech Fund to provide the local matching funds to the 2004 LSTA (Library Grant) Fund. Based on the above sections of code, this is not an allowable transfer.

A finding for adjustment is hereby rendered against the LSTA Grant Fund in favor of the Permanent Improvement Tech Fund in the amount of \$7,706. The Board of Education should authorize the Treasurer to adjust the fund balance of these funds to reflect this adjustment.

**Officials' Response**

The District no longer has the LSTA (library Grant) and will look into how to resolve this issue.

**FINDING NUMBER 2004-006**

**Noncompliance Citation and Reportable Condition**

**Ohio Revised Code § 5705.38** requires the Board of Education to adopt a permanent appropriation resolution. **Ohio Revised Code § 5705.40** states that any appropriation measure may be amended or supplemented as long as the District complies with the same provisions of the law as used in making the original, permanent appropriation.

The Board of Education established the legal level of control over appropriations at the fund, function and object level. Appropriation amendments were posted to the system at the legal level of control without Board approval. This may result in appropriations increasing beyond the estimated resources or being reduced below an amount sufficient to cover all un-liquidated and outstanding contracts or obligations against them without Board knowledge.

On June 30, 2004, the Treasurer, without Board approval, posted appropriation adjustments in the amount of \$538,910 to various funds of the District. Significant appropriation adjustments posted to the following funds in June 2004 were as follows:

Fund	Appropriation increase (decrease) adjustments
General	\$474,778
Student Intervention	(40,744)
Title I	81,408
Improving Teacher Quality	(45,480)
Food Service	124,585

In addition to the above listed amendments, there were also numerous immaterial adjustments. These amendments were not presented to the Board until the July 2, 2004 Board meeting and were not considered when determining compliance with **Ohio Revised Code § 5705.41 (B)&(D)**. The legislative body of the District is the Board, and as such, may not delegate it's authority to establish appropriations. The effect of the Board not approving any amendments at the required legal level of control prior to being posted to the accounting system could result in spending exceeding the approved budgeted amounts and the Board not fulfilling their obligation of monitoring and approving budgetary information. We recommend that no amendments to appropriations at the legal level of control be posted to the system without first being approved by the Board of Education and filed with the County Auditor if need be.

**Officials' Response**

The District will comply with these Ohio Revised Code Sections.

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**SCHEDULE OF FINDINGS  
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JUNE 30, 2004  
(Continued)**

**FINDING NUMBER 2004-007**

**Noncompliance Citation and Reportable Condition**

**Ohio Revised Code § 5705.39** requires that total appropriations from each fund not exceed the total estimated revenue available for expenditure, as certified by the budget commission. No appropriations measure shall become effective until the County Auditor files a certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Total appropriations exceeded total estimated resources at June 30, 2004 as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Auxiliary Services	\$6,868	\$9,107	(\$2,239)
Ohio Reads	29,740	41,985	(12,245)
Title I	216,000	249,714	(34,714)
Title V	14,904	18,174	(3,270)
Title IV-A	9,550	11,372	(1,822)
Title II-A	93,506	99,484	(5,978)
LSTA Grant	0	29,936	(29,936)
School Net	0	51,975	(51,975)
Tech Equity	0	3,135	(3,135)
IVCL Grant	0	15,214	(15,214)

The District did not obtain certificates from the County Auditor that appropriations from each fund did not exceed the total Amended Official Estimate of Resources for certain appropriation and estimated resource amendments.

The Board of Education should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Treasurer should obtain the required certificate from the County Auditor when amending appropriations and estimated resources. The Treasurer requested an amended certificate from the County Auditor on July 26, 2004 for fiscal year 2004. These amendments were not considered when determining compliance with **Ohio Revised Code § 5705.39**.

**Officials Response**

The District will comply with these Ohio Revised Code Sections and implement the recommendation in the future.

**FINDING NUMBER 2004-008**

**Noncompliance Citation and Reportable Condition**

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

The following funds had expenditures which exceeded appropriations:

Fund	Appropriations	Expenditures	Amount of Variance
Title I Fund	\$249,713	\$296,366	\$(46,653)
Food Service Fund	589,000	669,656	(80,656)

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

**Officials' Response**

The District will comply with this Ohio Revised Code Section and implement the recommendation in the future.

**FINDING NUMBER 2004-009**

**Noncompliance Citation and Reportable Condition - Budgetary – State and Federal Programs**

The Consolidated Application for Fiscal Year 2004 included Title I, Improving Teacher Quality - Title II-A, Technology – Title II-D, Safe and Drug-Free Schools – Title IV-A, and Innovative Programs – Title V Federal Grant Programs and the Student Intervention State Grant Program. The Consolidated Application was substantially approved in August and September 2003. The initial payment for all federal grants was received in September 2003.

**Ohio Revised Code § 5705.36(A)(3)** requires obtaining an increased amended certificate from the Budget Commission if the legislative authority intends to appropriate and expend excess revenue. **Ohio Revised Code § 5705.36(A)(5)** states that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriations.

The District received State and Federal grant monies in September 2003, but did not obtain an Amended Certificate of Estimated Resources from the County Auditor until February 2004. Fiscal year 2004 appropriations for the State and Federal funds were not posted to the District's ledgers until March 2004, resulting in deficit spending for the first eight months of the fiscal year.

The School District did not have control procedures in place to ensure that appropriations were approved and posted for State and Federal programs at the time they were awarded or received. Without proper budgetary controls over intergovernmental grants, the possibility exists that restrictions on these funds could be violated and monies either not expended in the time frame allowed by the grant or for purchases not allowed.

We recommend the Board of Education implement procedures to ensure that appropriations are accurately posted to the accounting system in a timely manner for all funds. Appropriation reports for all the District's funds should be part of the monthly package presented to the Board. State and Federal grant funds should be monitored to determine that the monies awarded are received and that they are budgeted for in a timely manner.

**Officials' Response**

The District will implement this recommendation in the future.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
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**SCHEDULE OF FINDINGS  
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JUNE 30, 2004  
(Continued)**

**FINDING NUMBER 2004-010**

**Reportable Condition - Approval of Student Activities**

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

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

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

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

For the twenty-one (21) items tested:

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

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

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**SCHEDULE OF FINDINGS  
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(Continued)**

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

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

**Officials' Response**

The District has taken steps to implement this recommendation already.

**3. FINDINGS FOR FEDERAL AWARDS**

Finding Number	2004-011
CFDA Title and Number	Title II-A - CFDA # 84.367
Federal Award Number / Year	045872; TR-S1-2003
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**Questioned Costs and Reportable Condition**

**Cash Management**

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

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

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

The Treasurer completed a Project Cash Request in June 2003 and included the \$15,204 in the expenditure amount. The Title VI-R Fund grant money had been received in Fiscal Year 2002 and was on hand. By including these expenditures in the PCR for Title II-A, the District, in effect, requested the amount again.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
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(Continued)**

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

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

**Officials' Response**

The District will implement the recommendation in the future.

**JEFFERSON AREA LOCAL SCHOOL DISTRICT  
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**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
June 30, 2004**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2004-001	Complete report on a timely basis.	Immediately	Edward Williams
2004-002	Keep all records as required.	Immediately	Edward Williams
2004-003	To establish the reserve accounts as required.	Immediately	Edward Williams
2004-004	To monitor fund balances closely.	Immediately	Edward Williams
2004-005	Will adjust the permanent improvement fund.	Immediately	Edward Williams
2004-006	Get board approval before posting any appropriation adjustments.	Immediately	Edward Williams
2004-007	Will monitor appropriations so that don't exceed estimated resources.	Immediately	Edward Williams
2004-008	Will monitor expenditures so that don't exceed appropriations.	Immediately	Edward Williams
2004-009	Will establish procedures to ensure that appropriations are accurately posted.	Immediately	Edward Williams
2004-010	Will enforce the board policies governing student activities.	Immediately	Edward Williams
2004-011	Will comply with cash management.	Immediately	Edward Williams





**Mary Taylor, CPA**  
Auditor of State

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

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**NOVEMBER 8, 2007**