



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

February 21, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Jefferson Local School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Jefferson Local School District, Madison County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

November 3, 2006

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The management's discussion and analysis of the Jefferson Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$3,049,241 which represents a 16.56% increase from 2005.
- General revenues accounted for \$12,724,780 in revenue or 88.46% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,659,913 or 11.54% of total revenues of \$14,384,693.
- The District had \$11,335,452 in expenses related to governmental activities; \$1,659,913 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$12,724,780 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$10,561,697 in revenues and other financing sources and \$9,373,395 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased \$1,188,302 from \$4,674,687 to \$5,862,989.
- The debt service fund, had \$3,584,959 in revenues and other financing sources and \$3,239,846 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$345,113.
- The classroom facilities fund, had \$6,204,428 in revenues and \$15,966,426 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance decreased \$9,761,998 from \$16,343,683 to \$6,581,685.

Using these Basic Financial Statements

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General fund, Debt Service fund and Classroom Facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund, accounts for medical, vision, dental and prescription benefits self-insurance. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-54 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. A comparative analysis has been provided.

The table below provides a summary of the District's net assets for 2006 and 2005. Certain fiscal year 2005 balances have been restated due to the restatement of capital assets, as described in Note 3.B. in the notes to the basic financial statements.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

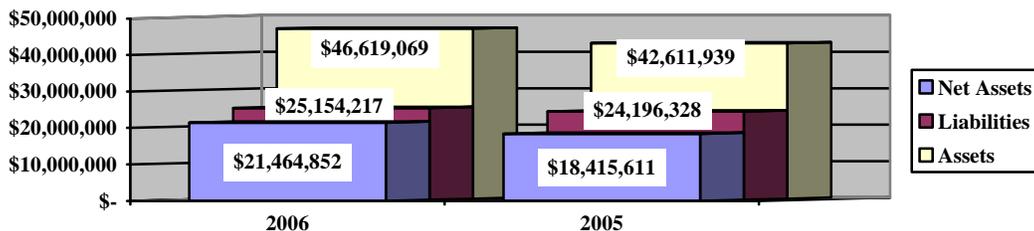
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 23,574,856	\$ 36,764,407
Capital assets, net	<u>23,044,213</u>	<u>5,847,532</u>
Total assets	<u>46,619,069</u>	<u>42,611,939</u>
<u>Liabilities</u>		
Current liabilities	7,366,615	6,213,937
Long-term liabilities	<u>17,787,602</u>	<u>17,982,391</u>
Total liabilities	<u>25,154,217</u>	<u>24,196,328</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	6,265,393	1,567,170
Restricted	9,931,921	15,041,084
Unrestricted	<u>5,267,538</u>	<u>1,807,357</u>
Total net assets	<u>\$ 21,464,852</u>	<u>\$ 18,415,611</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$21,464,852. Of this total, \$9,931,921 is restricted in use.

At year-end, capital assets represented 49.43% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$6,265,393. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$9,931,921, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$5,267,538 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The table below shows the change in net assets for fiscal year 2006 and 2005. Certain fiscal year 2005 balances have been restated due to the restatement of capital assets, as described in Note 3.B. in the notes to the basic financial statements.

	Change in Net Assets	
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,025,408	\$ 887,060
Operating grants and contributions	634,505	637,131
Capital grants and contributions	-	11,235
General revenues:		
Property taxes	5,692,883	4,820,324
School District income tax	697,874	548,670
Grants and entitlements	4,894,786	4,249,906
Payment in lieu of taxes	495,502	245,673
Investment earnings	902,449	487,348
Other	<u>41,286</u>	<u>6,547</u>
Total revenues	<u>\$14,384,693</u>	<u>\$11,893,894</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

	Change in Net Assets	
	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,571,307	\$ 4,399,834
Special	1,303,198	1,299,836
Support services:		
Pupil	432,418	417,320
Instructional staff	439,387	365,243
Board of education	61,446	49,436
Administration	689,267	813,090
Fiscal	450,061	371,867
Business	17,967	16,918
Operations and maintenance	1,007,012	854,718
Pupil transportation	463,447	539,426
Central	359,830	306,965
Operations of non-instructional services:		
Food service operations	445,959	408,257
Extracurricular activities	423,280	338,644
Interest and fiscal charges	<u>670,873</u>	<u>835,815</u>
Total expenses	<u>11,335,452</u>	<u>11,017,369</u>
Change in net assets	3,049,241	876,525
Net assets at beginning of year, restated	<u>18,415,611</u>	<u>17,539,086</u>
Net assets at end of year	<u>\$ 21,464,852</u>	<u>\$ 18,415,611</u>

Governmental Activities

Net assets of the District's governmental activities increased \$3,049,241. Total governmental expenses of \$11,335,452 were offset by program revenues of \$1,659,913 and general revenues of \$12,724,780. Program revenues supported 14.64% of the total governmental expenses.

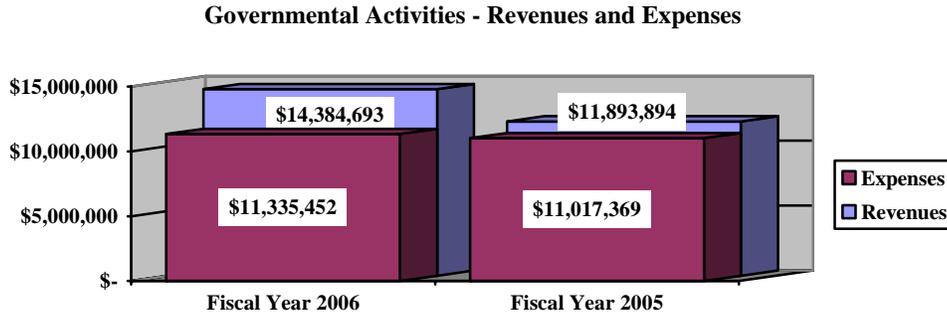
The primary sources of revenue for governmental activities are derived from property taxes, school district income taxes and grants and entitlements. These revenue sources represent 78.46% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,874,505 or 51.82% of total governmental expenses for fiscal 2006.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The following is a comparison of 2006 and 2005.

Governmental Activities

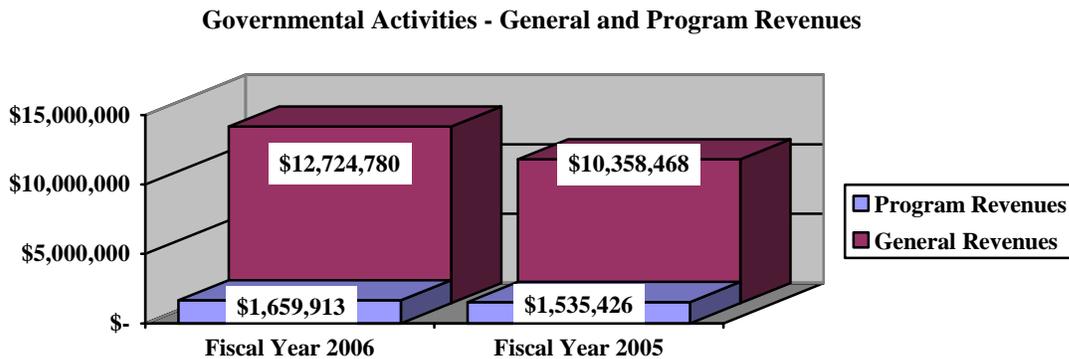
	Total Cost of Services 2006	Net Cost of Services 2006	Restated Total Cost of Services 2005	Restated Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 4,571,307	\$ 3,900,700	\$ 4,399,834	\$ 3,817,145
Special	1,303,198	942,101	1,299,836	944,280
Support services:				
Pupil	432,418	415,489	417,320	390,970
Instructional staff	439,387	421,185	365,243	325,453
Board of education	61,446	61,446	49,436	49,436
Administration	689,267	689,267	813,090	809,375
Fiscal	450,061	450,061	371,867	371,867
Business	17,967	17,967	16,918	16,918
Operations and maintenance	1,007,012	1,006,286	854,718	854,718
Pupil transportation	463,447	463,447	539,426	539,426
Central	359,830	343,066	306,965	286,376
Operations of non-instructional services:				
Food service operations	445,959	(8,072)	408,257	11,394
Extracurricular activities	423,280	301,723	338,644	228,770
Interest and fiscal charges	670,873	670,873	835,815	835,815
Total expenses	<u>\$ 11,335,452</u>	<u>\$ 9,675,539</u>	<u>\$ 11,017,369</u>	<u>\$ 9,481,943</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 82.44% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.36%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$15,830,425, which is lower than last year's total of \$25,201,555. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)	Percentage Change
General	\$ 5,862,989	\$ 4,674,687	\$ 1,188,302	25.42 %
Debt Service	1,074,460	729,347	345,113	47.32 %
Classroom Facilities	6,581,685	16,343,683	(9,761,998)	(59.73) %
Other Governmental	<u>2,311,291</u>	<u>3,453,838</u>	<u>(1,142,547)</u>	(33.08) %
Total	<u>\$ 15,830,425</u>	<u>\$ 25,201,555</u>	<u>\$ (9,371,130)</u>	(37.18) %

General Fund

The District's general fund balance increased \$1,188,302. The table that follows assists in illustrating the financial activities of the general fund.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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	2006 <u>Amount</u>	2005 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 5,118,860	\$ 4,287,134	\$ 831,726	19.40 %
Tuition	536,678	354,449	182,229	51.41 %
Earnings on investments	249,605	122,064	127,541	104.49 %
Intergovernmental	4,124,713	4,145,595	(20,882)	(0.50) %
Other revenues	<u>531,163</u>	<u>259,232</u>	<u>271,931</u>	104.90 %
 Total	 <u>\$ 10,561,019</u>	 <u>\$ 9,168,474</u>	 <u>\$ 1,392,545</u>	 15.19 %
<u>Expenditures</u>				
Instruction	\$ 5,057,097	\$ 4,794,471	\$ 262,626	5.48 %
Support services	3,605,820	3,371,142	234,678	6.96 %
Extracurricular activities	306,125	235,373	70,752	30.06 %
Facilities acquisition and construction	14,589	11,284	3,305	29.29 %
Capital outlay	-	107,737	(107,737)	(100.00) %
Debt service	<u>28,414</u>	<u>24,798</u>	<u>3,616</u>	14.58 %
 Total	 <u>\$ 9,012,045</u>	 <u>\$ 8,544,805</u>	 <u>\$ 467,240</u>	 5.47 %

The significant increase in earnings on investments is primarily due to an increase in the amount of investments due to receipts of Ohio School Facilities Commission (OSFC) grant funds which have been invested by the District during construction, but also due to an increase in interest rates. The increase in other revenue is due to an increase in receipts for payments in lieu of taxes. The increase in tuition is due to the increased number of students from open enrollment. The decrease in capital outlay is due to the implementation of new leases for copier equipment during fiscal year 2005, which did not occur during fiscal year 2006.

Debt Service Fund

The debt service fund had \$3,584,959 in revenues and other financing sources and \$3,239,846 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$345,113, or 47.32% of the 2005 fund balance. The debt service fund's revenues increased 4.61% due to an increase in tax receipts in the current year, which primarily contributed to the increase in fund balance. Overall, activity was consistent with the previous year.

Classroom Facilities Fund

The classroom facilities fund had \$6,204,428 in revenues and \$15,966,426 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance decreased \$9,761,998 due to the significant increase in expenditures due to construction expenditures which began during fiscal year 2005, however a significant portion of the renovation projects occurred during fiscal year 2006.

General Fund Budgeting Highlights

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,222,311 and final budgeted revenues and other financing sources were \$10,173,801. Actual revenues and other financing sources for fiscal 2006 were \$10,457,317. This represents a \$1,235,006 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,597,432 were increased to \$9,605,793 in the final appropriations. The actual budget basis expenditures for fiscal year 2006 totaled \$9,506,032, which was \$99,761 below the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$23,044,213 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The 2005 capital assets of the District have been restated as described in Note 3.B. of the notes to the basic financial statements. The following table shows fiscal 2006 balances compared to 2005:

Capital Assets at June 30 (Net of Depreciation)		<u>Governmental Activities</u>	
		<u>2006</u>	<u>Restated 2005</u>
Land	\$	254,158	\$ 254,158
Construction in progress		21,293,203	3,928,235
Land improvements		281,202	308,017
Building and improvements		797,618	846,077
Furniture and equipment		231,236	276,930
Vehicles		<u>186,796</u>	<u>234,115</u>
Total		<u>\$ 23,044,213</u>	<u>\$ 5,847,532</u>

The overall increase in capital assets of \$17,196,681 is due to construction in progress for the OSFC project which began during fiscal year 2005, but the most significant portion of the renovations occurred during fiscal year 2006. The projects were completed during fiscal year 2007. Capital outlays of \$17,409,954 exceeded depreciation expense of \$175,223 and disposals of \$38,050 (net of accumulated depreciation) in the current fiscal year.

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

Debt Administration

At June 30, 2006, the District had \$204,000 in energy conservation bonds, \$14,200,000 in general obligation bonds, \$2,300,000 in bond anticipation notes, and \$74,820 in capital lease obligations outstanding. Of this total, \$2,601,993 is due within one year and \$14,176,827 is due in greater than one year. The following table summarizes the bonds, notes and leases outstanding.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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(Continued)**

Outstanding Debt, at Year End

	Governmental Activities	
	2006	2005
Energy conservation bonds	\$ 204,000	\$ 255,000
Capital lease obligations	74,820	97,127
General obligation bonds	14,200,000	14,400,000
Bond anticipation notes	2,300,000	2,300,000
Total	\$ 16,778,820	\$ 17,052,127

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

Current Financial Related Activities

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

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

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

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

Contacting the District's Financial Management

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

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**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 11,001,240
Cash with escrow agent.	244,234
Investments.	6,498,881
Receivables:	
Taxes	5,455,938
Accounts	9,246
Intergovernmental	19,059
Accrued interest	100,813
Prepayments	46,762
Materials and supplies inventory	22,003
Unamortized bond issue costs	176,680
Capital assets:	
Land and construction in progress	21,547,361
Depreciable capital assets, net	1,496,852
Total capital assets, net.	23,044,213
Total assets.	46,619,069
Liabilities:	
Accounts payable.	118,190
Contracts payable.	2,346,875
Retainage payable	244,234
Accrued wages and benefits	760,725
Pension obligation payable.	252,188
Intergovernmental payable	64,099
Deferred revenue	3,426,950
Claims payable	48,888
Accrued interest payable	104,466
Long-term liabilities:	
Due within one year.	2,670,828
Due in more than one year	15,116,774
Total liabilities	25,154,217
Net Assets:	
Invested in capital assets, net of related debt.	6,265,393
Restricted for:	
Capital projects	8,583,217
Debt service.	1,007,894
School facilities projects	195,054
Locally funded progams.	9,779
Federally funded progams.	3,670
Student activities.	50,204
Other purposes	82,103
Unrestricted	5,267,538
Total net assets	\$ 21,464,852

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 4,571,307	\$ 612,464	\$ 58,143		\$ (3,900,700)
Special	1,303,198	-	361,097		(942,101)
Support services:					
Pupil	432,418	427	16,502		(415,489)
Instructional staff	439,387	-	18,202		(421,185)
Board of education	61,446	-	-		(61,446)
Administration	689,267	-	-		(689,267)
Fiscal	450,061	-	-		(450,061)
Business	17,967	-	-		(17,967)
Operations and maintenance	1,007,012	200	526		(1,006,286)
Pupil transportation	463,447	-	-		(463,447)
Central	359,830	-	16,764		(343,066)
Operation of non-instructional services:					
Food service operations	445,959	290,760	163,271		8,072
Extracurricular activities	423,280	121,557	-		(301,723)
Interest and fiscal charges	670,873	-	-		(670,873)
Total governmental activities	\$ 11,335,452	\$ 1,025,408	\$ 634,505		(9,675,539)

General Revenues:

Property taxes levied for:	
General purposes	4,486,676
Classroom maintenance	71,023
Debt service	1,135,184
School district income tax	697,874
Grants and entitlements not restricted	
to specific programs	4,894,786
Payment in lieu of taxes	495,502
Investment earnings	902,449
Miscellaneous	41,286
Total general revenues	12,724,780
Change in net assets	3,049,241
Net assets at beginning of year (restated).	18,415,611
Net assets at end of year	\$ 21,464,852

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 5,367,230	\$ 765,060	\$ 3,544,141	\$ 1,142,947	\$ 10,819,378
Cash with escrow agent	-	-	-	244,234	244,234
Investments	-	-	5,254,397	1,244,484	6,498,881
Receivables:					
Taxes	4,326,088	1,065,400	-	64,450	5,455,938
Accounts	9,246	-	-	-	9,246
Intergovernmental	-	-	-	19,059	19,059
Accrued interest	25,992	-	60,493	14,328	100,813
Prepayments	35,040	-	11,722	-	46,762
Materials and supplies inventory	17,219	-	-	4,784	22,003
Restricted assets:					
Equity in pooled cash and cash equivalents	82,103	-	-	-	82,103
Total assets	<u>\$ 9,862,918</u>	<u>\$ 1,830,460</u>	<u>\$ 8,870,753</u>	<u>\$ 2,734,286</u>	<u>\$ 23,298,417</u>
Liabilities:					
Accounts payable	\$ 116,168	\$ -	\$ -	\$ 2,022	\$ 118,190
Contracts payable	-	-	2,265,440	81,435	2,346,875
Retainage payable	-	-	-	244,234	244,234
Accrued wages and benefits	738,295	-	-	22,430	760,725
Compensated absences payable	27,682	-	-	-	27,682
Pension obligation payable	235,464	-	-	16,724	252,188
Intergovernmental payable	61,516	-	-	2,583	64,099
Deferred revenue	2,820,804	756,000	23,628	53,567	3,653,999
Total liabilities	<u>3,999,929</u>	<u>756,000</u>	<u>2,289,068</u>	<u>422,995</u>	<u>7,467,992</u>
Fund Balances:					
Reserved for encumbrances	142,478	-	4,567,882	1,186,089	5,896,449
Reserved for materials and supplies inventory	17,219	-	-	4,784	22,003
Reserved for prepayments	35,040	-	11,722	-	46,762
Reserved for debt service	-	1,074,460	-	-	1,074,460
Reserved for budget stabilization	75,000	-	-	-	75,000
Reserved for school bus purchases	7,103	-	-	-	7,103
Unreserved, undesignated, reported in:					
General fund	5,586,149	-	-	-	5,586,149
Special revenue funds	-	-	-	315,185	315,185
Capital projects funds	-	-	2,002,081	805,233	2,807,314
Total fund balances	<u>5,862,989</u>	<u>1,074,460</u>	<u>6,581,685</u>	<u>2,311,291</u>	<u>15,830,425</u>
Total liabilities and fund balances	<u>\$ 9,862,918</u>	<u>\$ 1,830,460</u>	<u>\$ 8,870,753</u>	<u>\$ 2,734,286</u>	<u>\$ 23,298,417</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total governmental fund balances		\$ 15,830,425
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,044,213
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 191,700	
Intergovernmental revenue	2,521	
Accrued interest	<u>32,828</u>	
Total		227,049
Unamortized bond issuance costs are not recognized in the funds governmental activities on the statement of net assets.		176,680
Unamortized premiums on bond issuance is not recognized in the funds.		(176,680)
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(104,466)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(804,420)	
Energy conservation bonds payable	(204,000)	
School facilities notes payable	(2,300,000)	
General obligation bonds payable	(14,200,000)	
Capital lease obligation payable	<u>(74,820)</u>	
Total		(17,583,240)
An internal service fund is used by management to charge the costs of self-insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		<u>50,871</u>
Net assets of governmental activities		<u><u>\$ 21,464,852</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 5,118,860	\$ 1,119,334	\$ -	\$ 70,153	\$ 6,308,347
Tuition.	536,678	-	-	-	536,678
Charges for services.	-	-	-	290,760	290,760
Earnings on investments.	249,605	-	590,275	120,386	960,266
Extracurricular.	-	-	-	142,702	142,702
Classroom materials and fees	-	-	-	55,068	55,068
Other local revenues.	531,163	-	5,775	16,754	553,692
Intergovernmental - State.	4,124,713	102,275	5,608,378	45,604	9,880,970
Intergovernmental - Federal	-	-	-	593,448	593,448
Total revenue	<u>10,561,019</u>	<u>1,221,609</u>	<u>6,204,428</u>	<u>1,334,875</u>	<u>19,321,931</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,153,807	-	13,450	129,259	4,296,516
Special.	903,290	-	-	366,249	1,269,539
Support services:					
Pupil.	377,192	-	-	16,429	393,621
Instructional staff	415,034	-	-	16,395	431,429
Board of education	61,446	-	-	-	61,446
Administration.	646,143	-	-	-	646,143
Fiscal	398,770	23,255	75	1,581	423,681
Business	17,967	-	-	-	17,967
Operations and maintenance.	962,551	-	3,140	527	966,218
Pupil transportation	387,743	-	-	-	387,743
Central.	338,974	-	-	20,182	359,156
Operation of non-instructional services:					
Food service operations	-	-	-	444,611	444,611
Extracurricular activities.	306,125	-	-	116,085	422,210
Facilities acquisition and construction	14,589	-	15,949,761	1,441,104	17,405,454
Debt service:					
Principal retirement	22,307	2,551,000	-	-	2,573,307
Interest and fiscal charges	6,107	665,591	-	-	671,698
Total expenditures	<u>9,012,045</u>	<u>3,239,846</u>	<u>15,966,426</u>	<u>2,552,422</u>	<u>30,770,739</u>
Excess of revenues over (under) expenditures.	<u>1,548,974</u>	<u>(2,018,237)</u>	<u>(9,761,998)</u>	<u>(1,217,547)</u>	<u>(11,448,808)</u>
Other financing sources (uses):					
Transfers in	-	63,350	-	75,000	138,350
Transfers (out).	(361,350)	-	-	-	(361,350)
Sale of capital assets	678	-	-	-	678
Issuance of notes	-	2,300,000	-	-	2,300,000
Total other financing sources (uses)	<u>(360,672)</u>	<u>2,363,350</u>	<u>-</u>	<u>75,000</u>	<u>2,077,678</u>
Net change in fund balances	1,188,302	345,113	(9,761,998)	(1,142,547)	(9,371,130)
Fund balances at beginning of year	<u>4,674,687</u>	<u>729,347</u>	<u>16,343,683</u>	<u>3,453,838</u>	<u>25,201,555</u>
Fund balances at end of year.	<u>\$ 5,862,989</u>	<u>\$ 1,074,460</u>	<u>\$ 6,581,685</u>	<u>\$ 2,311,291</u>	<u>\$ 15,830,425</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds		\$ (9,371,130)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	\$ 17,409,954	
Current year depreciation	<u>(175,223)</u>	
Total		17,234,731
 Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(38,050)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	82,410	
Intergovernmental	(4,961,831)	
Accrued interest	<u>(57,817)</u>	
Total		(4,937,238)
 Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets.		
		2,573,307
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
		825
 The issuance of of notes is recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(2,300,000)
 Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		
		(96,727)
 The internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.		
		<u>(16,477)</u>
Change in net assets of governmental activities		<u><u>\$ 3,049,241</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,340,273	\$ 4,794,201	\$ 4,963,788	\$ 169,587
Tuition.	478,706	528,772	528,139	(633)
Earnings on investments.	201,407	222,471	224,833	2,362
Other local revenues.	343,160	379,050	499,033	119,983
Intergovernmental - State.	3,734,190	4,124,732	4,124,713	(19)
Total revenues	<u>9,097,736</u>	<u>10,049,226</u>	<u>10,340,506</u>	<u>291,280</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,324,837	4,328,678	4,102,313	226,365
Special.	906,944	907,756	879,131	28,625
Other.	2,748	2,750	-	2,750
Support services:				
Pupil.	334,611	334,911	375,556	(40,645)
Instructional staff	497,064	497,509	397,028	100,481
Board of education	65,644	65,703	71,036	(5,333)
Administration.	777,430	778,126	676,174	101,952
Fiscal	403,174	403,535	407,889	(4,354)
Business	23,715	23,736	23,512	224
Operations and maintenance.	1,040,750	1,041,682	1,048,936	(7,254)
Pupil transportation	368,621	368,951	411,787	(42,836)
Central.	314,463	314,745	341,652	(26,907)
Operation of non-instructional services:				
Extracurricular activities.	282,838	283,091	306,407	(23,316)
Facilities acquisition and construction.	30,593	30,620	28,261	2,359
Total expenditures	<u>9,373,432</u>	<u>9,381,793</u>	<u>9,069,682</u>	<u>312,111</u>
Excess of revenues over expenditures.	<u>(275,696)</u>	<u>667,433</u>	<u>1,270,824</u>	<u>603,391</u>
Other financing sources (uses):				
Sale of capital assets	525	525	678	(153)
Transfers in.	75,000	75,000	75,000	-
Transfers (out)	(224,000)	(224,000)	(436,350)	212,350
Advances in.	9,600	9,600	9,600	-
Advances (out)	-	-	-	-
Refund of prior year expenditure.	39,450	39,450	31,533	7,917
Total other financing sources (uses)	<u>(99,425)</u>	<u>(99,425)</u>	<u>(319,539)</u>	<u>220,114</u>
Net change in fund balance.	(375,121)	568,008	951,285	823,505
Fund balance at beginning of year	4,116,969	4,116,969	4,116,969	-
Prior year encumbrances appropriated	177,481	177,481	177,481	-
Fund balance at end of year	<u>\$ 3,919,329</u>	<u>\$ 4,862,458</u>	<u>\$ 5,245,735</u>	<u>\$ 823,505</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006**

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current:	
Equity in pooled cash and cash equivalents	\$ 99,759
Total assets.	<u>99,759</u>
 Liabilities:	
Current:	
Claims payable	<u>48,888</u>
Total liabilities	<u>48,888</u>
 Net assets:	
Unrestricted.	<u>50,871</u>
Total net assets	<u><u>\$ 50,871</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Charges for services	\$ 555,802
Total operating revenues	<u>555,802</u>
Operating expenses:	
Purchased services	183,958
Claims expense	611,321
Total operating expenses	<u>795,279</u>
Operating loss before transfers	(239,477)
Transfer in	<u>223,000</u>
Change in net assets.	(16,477)
Net assets at beginning of year	<u>67,348</u>
Net assets at end of year.	<u><u>\$ 50,871</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash receipts from charges for services	\$ 555,802
Cash payments for purchased services	(183,958)
Cash payments for claims	(612,701)
	(240,857)
Net cash used in operating activities	(240,857)
 Cash flows from noncapital financing activities:	
Cash received from transfers in	223,000
	223,000
Net cash provided by noncapital financing activities.	223,000
	(17,857)
Net decrease in cash and cash equivalents.	(17,857)
 Cash and cash equivalents at beginning of year . . .	 117,616
Cash and cash equivalents at end of year.	\$ 99,759
	99,759
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (239,477)
Changes in assets and liabilities:	
Decrease in claims payable.	(1,380)
	(1,380)
Net cash used in operating activities	\$ (240,857)
	(240,857)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 314,232	\$ 50,239
Total assets.	<u>314,232</u>	<u>\$ 50,239</u>
Liabilities:		
Due to students	-	\$ 50,239
Total liabilities	<u>-</u>	<u>\$ 50,239</u>
Net Assets:		
Held in trust for scholarships	<u>314,232</u>	
Total net assets	<u>\$ 314,232</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 13,899
Gifts and contributions	3,010
Total additions.	16,909
Deductions:	
Scholarships awarded	12,754
Change in net assets	4,155
Net assets at beginning of year.	310,077
Net assets at end of year	\$ 314,232

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District is the 414th largest in the State of Ohio among 615 public school districts in terms of enrollment. It is staffed by 54 non-certificated employees and 81 certificated full-time teaching personnel who provide services to 1,304 students and other community members. The District currently operates 3 instructional buildings and 1 administrative building.

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, community services and student related activities of the District.

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Education Council (MEC)

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

Central Ohio Joint Vocational School

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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 LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) food service operations, and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

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

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

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

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

D. Basis of Accounting

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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 LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Madison County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
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, 2006, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, classroom facilities, other nonmajor governmental funds, and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$249,605, which includes \$35,814 assigned from other funds.

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

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

G. Inventory

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

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2006, the District has increased the capitalization threshold from \$1,000 to \$3,000, see Note 9.A for details. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	10 - 20 years
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 - 15 years

I. 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, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees at least 50 years of age with 10 years of service or any age with at least 15 years of service, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

K. Fund Balance Reserves

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

L. Operating Revenues and Expenses

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

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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, net assets restricted by enabling legislation were \$1,162,322 in the statement of net assets.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and budget stabilization reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

Q. Interfund Activity

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

R. Unamortized Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

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

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Accounting Change

The District has reported a accounting change to net assets as a result of a change in the District's capitalization threshold (see Note 2.H.). The accounting change has the following effect on net assets as previously reported at June 30, 2005.

	<u>Total</u>
Net assets, June 30, 2005	\$ 18,747,774
Restatement of capital assets	(332,163)
Restated net assets, June 30, 2005	<u>\$ 18,415,611</u>

C. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
EMIS	\$ 57
Entry Year Grant	34
Poverty Based Assistance	110
Title I	429

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. Appropriations exceeded estimated resources in the following funds at year end: Schoolnet, Title VI-B, Title II-D and New Construction. In addition, expenditures exceeded appropriations in the following funds at year end: Self Insurance, Title I and Title II-A. The District will monitor estimated resources, appropriations and expenditures on a monthly basis to prevent these violations from occurring in the future.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash with Escrow Agent

At fiscal year-end, \$244,234 was on deposit in the District's escrow account and excluded from the total amount of deposits reported below. This amount is not part of the internal cash pool, but reported on the financial statements as "Cash with Escrow Agent".

B. Deposits with Financial Institutions

At June 30, 2006 the carrying amount of all District deposits was \$7,292,329, exclusive of the \$2,226,580 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$7,527,221 of the District's bank balance of \$7,627,221 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
Repurchase Agreement	\$ 2,226,580	\$ 2,226,580	\$ -
STAR Ohio	10,367	10,367	-
FHLB	1,483,644	991,914	491,730
FHLMC	2,035,117	2,035,117	-
FNMA	2,231,597	1,739,289	492,308
FHLMC Discount Note	2,088,808	2,088,808	-
FNMA Discount Note	496,150	496,150	-
	<u>\$ 10,572,263</u>	<u>\$ 9,588,225</u>	<u>\$ 984,038</u>

The weighted average maturity of investments is .07 years for the general fund and .31 years for the construction fund.

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

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 2,226,580	21.06
STAR Ohio	10,367	0.10
FHLB	1,483,644	14.03
FHLMC	2,035,117	19.25
FNMA	2,231,597	21.11
FHLMC Discount Note	2,088,808	19.76
FNMA Discount Note	496,150	4.69
	<u>\$ 10,572,263</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 7,292,329
Investments	10,572,263
Cash with escrow agent	244,234
Total	<u>\$ 18,108,826</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 17,744,355
Fiduciary Funds	364,471
Total	<u>\$ 18,108,826</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 75,000
Transfers to Employee Benefits Self-Insurance fund from:	
General fund	223,000
Transfers to Debt Service fund from:	
General fund	<u>63,350</u>
Total transfers	<u>\$ 361,350</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) move debt proceeds to the fund which is required to expend them.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS (Continued)

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

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Madison County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 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, 2006 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.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 118,354,830	82.81	\$ 136,643,370	84.66
Tangible personal property	<u>24,573,920</u>	<u>17.19</u>	<u>24,753,420</u>	<u>15.34</u>
Total	<u>\$ 142,928,750</u>	<u>100.00</u>	<u>\$ 161,396,790</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 39.38		\$ 37.62	

NOTE 7 - SCHOOL DISTRICT INCOME TAX

The District currently benefits from a 1/2% income tax, which is assessed on all residents of the District. In 2006, the District income tax generated \$697,874 in revenue. The District apportions all the proceeds to the general fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Taxes	\$ 5,455,938
Accounts	9,246
Intergovernmental	19,059
Accrued interest	<u>100,813</u>
Total	<u>\$ 5,585,056</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 LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to the change in capitalization threshold in the previous year. See Note 2.H. for detail:

	Balance 6/30/05	Adjustments	Restated Balance 6/30/05
Governmental Activities:			
Capital assets, not being depreciated:			
Land	\$ 256,030	\$ (1,872)	\$ 254,158
Construction - in progress	<u>3,928,235</u>	<u>-</u>	<u>3,928,235</u>
Total capital assets, not being depreciated	<u>4,184,265</u>	<u>(1,872)</u>	<u>4,182,393</u>
Capital assets, being depreciated:			
Land improvements	432,184	(2,400)	429,784
Buildings and improvements	3,671,591	-	3,671,591
Furniture and equipment	1,829,493	(927,222)	902,271
Vehicles	<u>730,579</u>	<u>(1,176)</u>	<u>729,403</u>
Total capital assets, being depreciated	<u>6,663,847</u>	<u>(930,798)</u>	<u>5,733,049</u>
Less: accumulated depreciation	<u>(4,668,417)</u>	<u>600,507</u>	<u>(4,067,910)</u>
Governmental activities capital assets, net	<u>\$ 6,179,695</u>	<u>\$ (332,163)</u>	<u>\$ 5,847,532</u>

- B. Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance 6/30/05	Additions	Deductions	Balance 6/30/06
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 254,158	\$ -	\$ -	\$ 254,158
Construction in progress	<u>3,928,235</u>	<u>17,364,968</u>	<u>-</u>	<u>21,293,203</u>
Total capital assets, not being depreciated	<u>4,182,393</u>	<u>17,364,968</u>	<u>-</u>	<u>21,547,361</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	429,784	-	-	429,784
Buildings and improvements	3,671,591	8,933	-	3,680,524
Furniture and equipment	902,271	36,053	(86,331)	851,993
Vehicles	<u>729,403</u>	<u>-</u>	<u>-</u>	<u>729,403</u>
Total capital assets, being depreciated	<u>5,733,049</u>	<u>44,986</u>	<u>(86,331)</u>	<u>5,691,704</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(121,767)	(26,815)	-	(148,582)
Buildings and improvements	(2,825,514)	(57,392)	-	(2,882,906)
Furniture and equipment	(625,341)	(43,697)	48,281	(620,757)
Vehicles	<u>(495,288)</u>	<u>(47,319)</u>	<u>-</u>	<u>(542,607)</u>
Total accumulated depreciation	<u>(4,067,910)</u>	<u>(175,223)</u>	<u>48,281</u>	<u>(4,194,852)</u>
Governmental activities capital assets, net	<u>\$ 5,847,532</u>	<u>\$ 17,234,731</u>	<u>\$ (38,050)</u>	<u>\$ 23,044,213</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 61,523
<u>Support Services:</u>	
Pupil	31,681
Administration	7,352
Operations and maintenance	1,939
Pupil transportation	70,367
Central	1,145
Extracurricular activities	<u>1,216</u>
Total depreciation expense	<u>\$175,223</u>

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$22,307 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 26,220
2008	26,220
2009	26,220
2010	<u>6,554</u>
Total minimum lease payments	85,214
Less amount representing interest	<u>(10,394)</u>
Total	<u>\$ 74,820</u>

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
Governmental Activities:						
Energy conservation bonds	5.30%	\$ 255,000	\$ -	\$ (51,000)	\$ 204,000	\$ 51,000
General obligation bonds	1.75-5.0%	14,400,000	-	(200,000)	14,200,000	230,000
Bond anticipation notes	4.0%	-	2,300,000		2,300,000	2,300,000
Bond anticipation notes	2.597%	2,300,000	-	(2,300,000)	-	-
Capital lease obligation		97,127	-	(22,307)	74,820	20,993
Compensated absences	N/A	746,655	162,165	(76,718)	832,102	68,835
Total long-term obligations, governmental activities		<u>\$ 17,798,782</u>	<u>\$ 2,462,165</u>	<u>\$ (2,650,025)</u>	17,610,922	<u>\$ 2,670,828</u>
Unamortized premium					176,680	
Total long-term obligations					<u>\$ 17,787,602</u>	

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

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

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2004, the total estimated cost of the Construction Project is \$29,491,149 of which OSFC will pay \$12,415,242.

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

Bond Anticipation Notes - On November 9, 2005, the District reissued \$2,300,000 in general obligation notes to provide funds for the school facilities project. These notes are general obligations of the District for which the full faith and credit of the District pledged for repayment. These unamortized obligations of the District are accounted for in the statement of net assets. Principal and interest will be recorded in the debt service fund. The source of repayment is the current 16.9 mill levy.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

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

Year Ending June 30	Principal on Construction Bonds	Interest on Construction Bonds	Total	Principal on Energy Conser- vation Bonds	Interest on Energy Conser- vation Bonds	Total
2007	\$ 230,000	\$ 589,800	\$ 819,800	\$ 51,000	\$ 9,596	\$ 60,596
2008	285,000	584,650	869,650	51,000	6,915	57,915
2009	315,000	578,453	893,453	51,000	4,145	55,145
2010	365,000	570,544	935,544	51,000	1,389	52,389
2011	375,000	560,356	935,356	-	-	-
2012 - 2016	2,085,000	2,585,250	4,670,250	-	-	-
2017 - 2021	2,525,000	2,137,993	4,662,993	-	-	-
2022 - 2026	3,155,000	1,474,095	4,629,095	-	-	-
2027 - 2031	3,980,000	643,781	4,623,781	-	-	-
2032	885,000	19,359	904,359	-	-	-
Total	<u>\$14,200,000</u>	<u>\$ 9,744,281</u>	<u>\$ 23,944,281</u>	<u>\$ 204,000</u>	<u>\$ 22,045</u>	<u>\$ 226,045</u>

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Great American Insurance Company for property and fleet insurance and Ohio School Plan for liability insurance. Coverages provided are as follows:

<u>Description</u>	<u>Amount</u>
Building and Contents	
Replacement cost	\$23,904,950
Deductible	1,000
Liability	
School Board Errors and Omissions Liability	
Each wrongful act limit	1,000,000
Annual aggregate limit	3,000,000
Deductible	2,500

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

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

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

B. Medical/Surgical and Dental Insurance

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf. The claims liability of \$48,888 reported in the internal service fund at June 30, 2006, is based on an estimate provided by Self Funded Plans, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 50,268	\$ 611,321	\$ (612,701)	\$ 48,888
2005	85,879	594,658	(630,269)	50,268

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation Group Rating Plan

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

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

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 11.70 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$165,930, \$139,609, and \$119,711; 46.31 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 13 - PENSION PLANS – (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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 percent 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$588,545, \$579,429, and \$536,556; 81.72 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$13,608 made by the District and \$20,660 made by the plan members.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$45,273 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$60,453 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 951,285
Net adjustment for revenue accruals	220,513
Net adjustment for expenditure accruals	(123,309)
Net adjustment for other sources/uses	(41,133)
Adjustment for encumbrances	<u>180,946</u>
GAAP basis	<u>\$ 1,188,302</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$5,149 per year. A portion of the refund may be recovered from additional State entitlement payments.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ 16,333	\$ -	\$ 75,000
Current year set-aside requirement	176,516	176,516	-
Qualifying disbursements	<u>(451,847)</u>	<u>(306,665)</u>	<u>-</u>
Total	<u>\$ (258,998)</u>	<u>\$ (130,149)</u>	<u>\$ 75,000</u>
Cash balance carried forward to FY 2007	<u>\$ (258,998)</u>	<u>\$ -</u>	<u>\$ 75,000</u>

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for budget stabilization	\$ 75,000
Amount restricted for bus purchases	<u>7,103</u>
Total restricted assets	<u>\$ 82,103</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute.

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks and capital acquisition reserve. The extra amounts spent for textbooks may be used to reduce the set-aside requirement for future years; however, the extra amounts spent for capital acquisition may not be carried forward.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 18 - CONTRACTUAL COMMITMENTS

The District had the following contractual commitments related to the building projects outstanding at fiscal year end:

	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Amount Remaining</u>
Accurate Electric Construction	\$ 2,824,784	\$ (2,307,584)	\$ 517,200
A.H. Sturgill Roofing, Inc.	536,633	(470,112)	66,521
The Altman Company	3,166,902	(2,851,015)	315,887
American Glass Services Inc.	645,000	(432,041)	212,959
Bovis Lend-Lease	180,000	(127,115)	52,885
C&T Design Equipment Co. Inc.	128,690	(98,912)	29,778
Dave York Sports Inc.	77,337	(5,439)	71,898
Dick Houston Plumbing and HVAC	4,927,167	(4,331,248)	595,919
Dorsey Construction Company	3,081,561	(2,254,589)	826,972
Fanning/Howey Associates, Inc.	1,786,012	(1,572,815)	213,197
Farnham Equipment Co.	383,700	(141,037)	242,663
George J. Igel & Co, Inc.	1,287,405	(1,261,537)	25,868
Kastra Painting	228,150	(125,590)	102,560
The Kenny Huston Co.	1,633,638	(1,458,581)	175,057
Lepi Enterprises	119,376	(119,376)	-
M&D Blacktop & Sealing	96,000	(43,620)	52,380
Microman, Inc	890,757	(262,999)	627,758
R.E. Forshee Co. Inc.	970,513	(572,734)	397,779
Re: Source Ohio	800,839	(510,402)	290,437
Simplex Grinnell	414,051	(306,784)	107,267
SOTA Technologies	74,850	(29,261)	45,589
Stan & Associates	73,794	(42,062)	31,732
Stonecreek Interior Systems	547,500	(302,627)	244,873
Telecommunications, Inc.	82,256	-	82,256
Thysson Krupp Elevator Corp.	42,000	(34,860)	7,140
Wasserstrom Co.	241,170	(225,629)	15,541
Total	<u>\$ 25,240,085</u>	<u>\$ (19,887,969)</u>	<u>\$ 5,352,116</u>

NOTE 19 – SUBSEQUENT EVENT

The District retired the bond anticipation notes outstanding at June 30, 2006, in the amount of \$2,300,000, on November 28, 2006, and issued bond anticipation notes in the amount of \$2,000,000 at 4.18% with a maturity date of November 27, 2007.

JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Food Distribution Program	N/A	10.550	\$ -	\$ 35,062	\$ -	\$ 35,062
Nutrition Cluster:						
National School Breakfast Program	048256-05PU-2005	10.553	264	-	264	-
	048256-05PU-2006		1,607	-	1,607	-
Total National School Breakfast Program			1,871	-	1,871	-
National School Lunch Program	048256-LLP1-2005	10.555	117	-	117	-
	048256-LLP1-2006		873	-	873	-
	048256-LLP4-2005		17,904	-	17,904	-
	048256-LLP4-2006		89,975	-	89,975	-
Total National School Lunch Program			108,869	-	108,869	-
Total Nutrition Cluster			110,740	-	110,740	-
Total U.S. Department of Agriculture			110,740	35,062	110,740	35,062
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I Grant to Local Education Agencies	048256-C1S1-2005	84.010	9,916	-	16,593	-
	048256-C1S1-2006		87,063	-	87,032	-
Total Title I Grant to Local Education Agencies			96,979	-	103,625	-
Special Education Grants to States	048256-6BSD-2003-P	84.027	(294)	-	-	-
	048256-6BSD-2005		6,762	-	6,958	-
	048256-6BSF-2006		288,539	-	288,539	-
Total Special Education Grants to States			295,007	-	295,497	-
Safe and Drug Free Schools and Communities	048256-DRS1-2005	84.186	(288)	-	475	-
	048256-DRS1-2006		4,556	-	4,271	-
Total Safe and Drug Free Schools and Communities			4,268	-	4,746	-
State Grants for Innovative Programs	048256-C2S1-2006	84.298	3,652	-	3,652	-
Education Technology State Grants	048256-TJS1-2005	84.318	984	-	2,454	-
	048256-TJS1-2006		874	-	721	-
Total Education Technology State Grants			1,858	-	3,175	-
Improving Teacher Quality State Grants	048256-TRS1-2005	84.367	6,029	-	6,082	-
	048256-TRS1-2006		41,118	-	39,118	-
Total Improving Teacher Quality State Grants			47,147	-	45,200	-
Total U.S. Department of Education			448,911	-	455,895	-
Total Federal Awards			\$ 559,651	\$ 35,062	\$ 566,635	\$ 35,062

The accompanying notes are an integral part of this schedule.

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

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

The Schedule includes negative receipt amounts for refund of prior year receipts to the Ohio Department of Education. These refunds are due to the expiration of period of availability and are as follows:

Grant	CFDA Number	Grant Year	Amount of Repayment
Special Education Grants to States	84.027	2003	\$294
Safe and Drug Free Schools and Communities	84.186	2003	<u>288</u>
Total			\$582



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Jefferson Local School District, Madison County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 3, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated November 3, 2006, we reported other matters involving compliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

November 3, 2006



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

We have audited the compliance of Jefferson Local School District, Madison County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Jefferson Local School District, Madison County, Ohio complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

November 3, 2006

**JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States CFDA: #84.027 Improving Teacher Quality State Grants CFDA: #84.367
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

JEFFERSON LOCAL SCHOOL DISTRICT
MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 6, 2007