

Adena Local School District

Ross County

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, INC.
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**Auditor of State
Betty Montgomery**

Board of Education
Adena Local School District
3367 County Road 550
Frankfort, Ohio 45628

We have reviewed the *Independent Auditor's Report* of the Adena Local School District, Ross County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Adena Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 10, 2006

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Adena Local School District
 Frankfort, Ohio
 Basic Financial Statements
 For the Fiscal Year Ended June 30, 2005

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
 Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities.....	11
 Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	12
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget Basis) – General Fund.....	16
Statement of Fund Net Assets – Government Activities – Internal Service Fund.....	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets Governmental Activities – Internal Service Fund.....	18
Statement of Cashflows – Governmental Activities – Internal Service Fund	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	21
 Notes to the Basic Financial Statements.....	 22
 Schedule of Federal Awards Receipts and Expenditures.....	 50
Notes to Schedule of Federal Awards Receipts and Expenditures.....	51
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	52
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-1	54
Schedule of Findings OMB Circular §.505.....	56

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Adena Local School District
3367 County Road 550
Frankfort, OH 45628

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Adena Local School District, Ross County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General Fund thereof, 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 January 10, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosure* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employees*.



Balestra, Harr & Scherer, CPAs, Inc.
January 10, 2006

Adena Local School District
Ross County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Adena Local School District (the "School District") discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2005 by \$22,230,559.
- The School District's net assets of governmental activities decreased \$1,588,517.
- General revenues accounted for \$7,353,546 in revenue or 75 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions and capital grants and contributions accounted for \$2,429,862 or 25 percent of total revenues of \$9,783,408.
- The School District had \$11,371,925 in expenses related to governmental activities; \$2,429,862 of these expenses was offset by program specific charges for services and sales, operating grants and contributions and capital grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Adena Local School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Major 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 the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other Non-Major funds presented in total in one column.

Adena Local School District
Ross County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The analysis of the School District as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes to those assets. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the School District has only one kind of activity.

- **Governmental Activities.** All of the School District's programs and services are reported here including instruction and support services.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the School District's funds begins on page 7. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's only major fund is the General Fund.

Governmental Funds. Most of the School 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 the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Fund. Proprietary funds use the same basis of accounting as business-type activities. The internal service fund is used to report activities that provide services to the School District's other funds and departments.

Fiduciary Funds. The School District's fiduciary funds are a private purpose trust fund and an agency fund. All of the School District's fiduciary funds are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Adena Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005

THE SCHOOL DISTRICT AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

Table 1
 Net Assets

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets	\$ 4,351,685	\$ 4,791,784
Restricted Cash	88,814	-
Capital Assets, Net	<u>23,870,903</u>	<u>24,944,101</u>
 Total Assets	 <u><u>28,311,402</u></u>	 <u><u>29,735,885</u></u>
 Liabilities:		
Current and Other Liabilities	3,060,045	2,761,681
Long-Term Liabilities	<u>3,020,798</u>	<u>3,155,128</u>
 Total Liabilities	 <u><u>6,080,843</u></u>	 <u><u>5,916,809</u></u>
 Net Assets:		
Invested in Capital Assets, Net of Related Debt	21,434,466	22,393,063
Restricted	637,298	769,382
Unrestricted	<u>158,795</u>	<u>656,631</u>
 Total Net Assets	 <u><u>\$ 22,230,559</u></u>	 <u><u>\$ 23,819,076</u></u>

Total net assets of the Center as a whole decreased \$1,588,517. The majority of the decrease in net assets is due to depreciation of capital assets for the current fiscal year.

Adena Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

Table 2
 Change in Net Assets

	<u>2005</u>	<u>2004</u>
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 829,600	\$ 739,444
Operating Grants, Contributions, and Interest	1,600,262	1,028,075
Capital Grants and Contributions	-	41,624
Total Program Revenues	<u>2,429,862</u>	<u>1,809,143</u>
General Revenues:		
Property Taxes	1,738,681	1,733,422
Grants, Entitlements, Gifts and Donations Not Restricted to Specific Programs	5,493,543	5,657,502
Investment Earnings	54,785	52,873
Miscellaneous	66,537	88,449
Total General Revenues	<u>7,353,546</u>	<u>7,532,246</u>
Special Item - Gain on Sale of Land	-	145,345
Total Revenues	<u>9,783,408</u>	<u>9,486,734</u>
 Program Expenses		
Instruction:		
Regular	5,010,505	4,468,794
Special	1,096,156	1,146,976
Vocational	15,512	48,585
Other	371,961	-
Support Services:		
Pupils	410,353	422,805
Instructional Staff	502,316	517,035
Board of Education	33,664	34,406
Administration	900,627	927,044
Fiscal	278,065	266,161
Operation and Maintenance of Plant	1,045,376	1,093,318
Pupil Transportation	669,840	643,372
Central	145,065	140,081
Operation of Non-Instructional Services:		
Food Service Operations	357,007	451,281
Extracurricular Activities	394,191	289,810
Interest and Fiscal Charges	141,287	146,806
Total Expenses	<u>11,371,925</u>	<u>10,596,474</u>
 Net Assets at Beginning of Year	23,819,076	24,928,816
Decrease in Net Assets	<u>(1,588,517)</u>	<u>(1,109,740)</u>
Net Assets at End of Year	<u>\$ 22,230,559</u>	<u>\$ 23,819,076</u>

Adena Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005

Governmental Activities

Charges for services and sales comprised 8.5 percent of revenue for governmental activities, while operating grants and contributions comprised 16.4 percent of revenue for governmental activities of the School District for fiscal year 2005.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 44.1 percent of governmental program expenses with Special Instruction comprising 9.6 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 unrestricted State entitlements and other general revenues.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2005		2004	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,494,134	\$ 5,498,354	\$ 5,664,355	\$ 4,582,118
Support Services	3,985,306	3,332,538	4,044,222	3,879,310
Operation of Non-Instructional Services	357,007	(127,084)	451,281	90,298
Extracurricular Activities	394,191	122,173	289,810	88,799
Interest and Fiscal Charges	141,287	116,082	146,806	146,806
Total Expenses	<u>\$ 11,371,925</u>	<u>\$ 8,942,063</u>	<u>\$ 10,596,474</u>	<u>\$ 8,787,331</u>

THE SCHOOL DISTRICT'S FUNDS

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$9,783,500 and expenditures of \$10,365,927. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund decreased by \$558,329. This decrease was primarily due to the School District having significant proceeds from sale of assets last year, while revenues and expenditures remained consisted in current fiscal year.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the School District amended its General Fund budget, but not significantly.

During the course of fiscal year 2005, there were several revisions to the General Fund budget. For the General Fund, the final budget basis revenue was \$1,797 above the original estimate while the District's final appropriations were \$135,252 below original estimates.

Adena Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$23,870,903 invested in its capital assets. Table 4 shows the fiscal year 2005 balances compared to 2004.

Table 4
 Capital Assets
 (Net of Accumulated Depreciation)

	Governmental Activities	
	2005	2004
Land	\$ 677,044	\$ 677,044
Land Improvements	2,032,303	2,155,354
Buildings and Improvements	18,807,620	19,458,754
Furniture, Fixtures, Equipment and Textbooks	2,046,328	2,342,018
Vehicles	307,608	310,931
Totals	\$ 23,870,903	\$ 24,944,101

Changes in capital assets from the prior year resulted from the addition of building improvements, vehicles, and depreciation expense. See Note 9 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2005, the School District had \$2,365,000 in bonds outstanding, of which \$90,000 is due within one year. The School District also had capital lease obligations outstanding of \$71,437, of which \$31,924 is due within one year. Table 5 summarizes the debt outstanding:

Table 5
 Outstanding Debt at Year End
 Governmental Activities

	2005	2004
General Obligation Bonds:		
1999 School Improvement Bonds	\$ 2,365,000	\$ 2,450,000
Capital Leases	71,437	101,038
Total	\$ 2,436,437	\$ 2,551,038

See Note 15 to the basic financial statements for more detailed information related to the District's debt.

CURRENT ISSUES

Adena Local School District receives approximately 70 percent of its funding from the State of Ohio. Due to changes in the per pupil funding provided by the State and a declining enrollment, we are receiving less revenue than anticipated; however, the health insurance, personnel and utility costs continue to increase.

The Adena Local Board of Education is currently working to avoid a projected deficit in fiscal year 2007. The Board has approved a potential plan listing viable options to consider. This plan has been filed with the Ohio Department of Education, Area 5 Coordinators' Office.

The Adena Local School District Board of Education is dedicated to providing a quality education for our students and stabilizing the financial future for our School District.

Adena Local School District
Ross County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shaune Anders, Treasurer, Adena Local School District, 3367 County Road 550, Frankfort, Ohio 45628, or email at sanders@mail.gsn.k12.oh.us.

Adena Local School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 2,326,855
Intergovernmental Receivable	53,396
Taxes Receivable	1,971,434
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	88,814
Non-Depreciable Capital Assets	677,044
Depreciable Capital Assets, net	23,193,859
<i>Total Assets</i>	28,311,402
LIABILITIES:	
Current Liabilities:	
Accounts Payable	50,306
Accrued Wages and Benefits	725,210
Intergovernmental Payable	291,568
Accrued Interest Payable	11,382
Deferred Revenue	1,722,080
Claims Payable	259,499
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	134,318
Due in More Than One Year	2,886,480
<i>Total Liabilities</i>	6,080,843
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	21,434,466
Restricted for Debt Service	172,963
Restricted for Capital Outlay	365,195
Restricted for Other Purposes	10,326
Restricted for Set Asides	88,814
Unrestricted	158,795
<i>Total Net Assets</i>	\$ 22,230,559

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

		Program Revenues		
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Net(Expense) Revenue and Changes in Net Assets	
Governmental Activities:				
Instruction:				
Regular	\$ 5,010,505	\$ 189,681	\$ 117,139	\$ (4,703,685)
Special	1,096,156	25,736	619,985	(450,435)
Vocational	15,512	361	-	(15,151)
Other	371,961	16,318	26,560	(329,083)
Support Services:				
Pupils	410,353	19,794	4,974	(385,585)
Instructional Staff	502,316	17,989	53,420	(430,907)
Board of Education	33,664	1,658	-	(32,006)
Administration	900,627	42,358	23,329	(834,940)
Fiscal	278,065	13,063	4,407	(260,595)
Operation and Maintenance of Plant	1,045,376	45,651	54,993	(944,732)
Pupil Transportation	669,840	30,271	333,013	(306,556)
Central	145,065	7,088	760	(137,217)
Operation of Non-Instructional Services	357,007	262,453	221,638	127,084
Extracurricular Activities	394,191	156,852	115,166	(122,173)
Interest and Fiscal Charges	141,287	327	24,878	(116,082)
<i>Total Governmental Activities</i>	<u>\$ 11,371,925</u>	<u>\$ 829,600</u>	<u>\$ 1,600,262</u>	<u>(8,942,063)</u>
General Revenues:				
Property and Other Local Taxes Levied for:				
				1,543,512
				195,169
				5,475,177
				18,366
				54,785
				66,537
				<i>Total General Revenues</i>
				7,353,546
				<i>Change in Net Assets</i>
				(1,588,517)
				<i>Net Assets Beginning of Year</i>
				23,819,076
				<u><i>Net Assets End of Year</i></u>
				<u>\$ 22,230,559</u>

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,415,011	\$ 714,100	\$ 2,129,111
Interfund Receivable	9,919	-	9,919
Intergovernmental Receivable	-	53,396	53,396
Taxes Receivable	1,715,167	256,267	1,971,434
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	88,814	-	88,814
<i>Total Assets</i>	<u>\$ 3,228,911</u>	<u>\$ 1,023,763</u>	<u>\$ 4,252,674</u>
LIABILITIES:			
Accounts Payable	44,074	6,232	50,306
Accrued Wages and Benefits	668,729	56,481	725,210
Interfund Payable	-	9,919	9,919
Intergovernmental Payable	255,928	20,947	276,875
Deferred Revenue	1,523,617	243,869	1,767,486
<i>Total Liabilities</i>	<u>2,492,348</u>	<u>337,448</u>	<u>2,829,796</u>
Equity:			
FUND BALANCES:			
Reserved:			
Reserved for Encumbrances	68,216	17,861	86,077
Reserved for Property Taxes	191,550	27,926	219,476
Reserved for Textbooks and Instructional Materials	88,814	-	88,814
Unreserved, Undesignated, Reported in:			
General Fund	387,983	-	387,983
Special Revenue Funds	-	118,217	118,217
Debt Service Funds	-	157,116	157,116
Capital Projects Funds	-	365,195	365,195
<i>Total Fund Balances</i>	<u>736,563</u>	<u>686,315</u>	<u>1,422,878</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,228,911</u>	<u>\$ 1,023,763</u>	<u>\$ 4,252,674</u>

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances \$ 1,422,878

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 23,870,903

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	29,878	
Intergovernmental	15,528	

Total		45,406
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An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets (76,448)

Long-Term Liabilities, including bonds, capital lease obligations, long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(584,361)	
Interest Payable	(11,382)	
Capital Lease Obligations	(71,437)	
Bonds Payable	(2,365,000)	

Total		<u>(3,032,180)</u>
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Net Assets of Governmental Activities \$ 22,230,559

The notes to the financial statements are an integral part of this statement.

Adena Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Property Taxes	\$ 1,508,884	\$ 227,022	\$ 1,735,906
Intergovernmental	6,057,711	1,023,278	7,080,989
Interest	47,166	7,619	54,785
Tuition and Fees	359,123	-	359,123
Rent	140	-	140
Extracurricular Activities	57,871	147,150	205,021
Gifts and Donations	1,224	17,142	18,366
Customer Sales and Services	-	262,382	262,382
Miscellaneous	61,423	5,115	66,538
<i>Total Revenues</i>	<u>8,093,542</u>	<u>1,689,708</u>	<u>9,783,250</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	3,799,629	181,879	3,981,508
Special	589,799	518,013	1,107,812
Vocational	7,326	-	7,326
Other	331,293	40,668	371,961
Support Services:			
Pupils	398,814	7,616	406,430
Instructional Staff	378,647	83,933	462,580
Board of Education	33,664	-	33,664
Administration	875,181	35,721	910,902
Fiscal	269,468	10,181	279,649
Operation and Maintenance of Plant	949,513	75,494	1,025,007
Pupil Transportation	640,230	855	641,085
Central	143,902	1,163	145,065
Operation of Non-Instructional Services	1,442	362,295	363,737
Extracurricular Activities	196,974	176,339	373,313
Debt Service:			
Principal	29,601	85,000	114,601
Interest	6,638	134,649	141,287
<i>Total Expenditures</i>	<u>8,652,121</u>	<u>1,713,806</u>	<u>10,365,927</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(558,579)</u>	<u>(24,098)</u>	<u>(582,677)</u>
OTHER FINANCING SOURCES AND USES:			
Proceeds from Sale of Capital Assets	250	-	250
<i>Total Other Financing Sources and Uses</i>	<u>250</u>	<u>-</u>	<u>250</u>
<i>Net Change in Fund Balances</i>	(558,329)	(24,098)	(582,427)
<i>Fund Balance at Beginning of Year</i>	<u>1,294,892</u>	<u>710,413</u>	<u>2,005,305</u>
<i>Fund Balance at End of Year</i>	<u>\$ 736,563</u>	<u>\$ 686,315</u>	<u>\$ 1,422,878</u>

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (582,427)

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

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

Capital Asset Additions	208,745	
Current Year Depreciation	(1,275,375)	
Total	(1,066,630)	(1,066,630)

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

Proceeds from Sale of Capital Assets	(250)	
Loss on Disposal of Capital Assets	(6,318)	
Total	(6,568)	(6,568)

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

Taxes	2,775	
Intergovernmental	(5,550)	
Total	(2,775)	(2,775)

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

85,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

29,601

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(166,362)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Decrease in Compensated Absences	19,729	
Decrease in Intergovernmental Payable	101,915	
Total	121,644	121,644

Net Change in Net Assets of Governmental Activities \$ (1,588,517)

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$ 8,327,636	\$ 8,329,433	\$ 8,105,761	\$ (223,672)
Total Expenditures and Other Financing Uses	<u>9,086,463</u>	<u>8,951,211</u>	<u>8,630,144</u>	<u>321,067</u>
Net Change in Fund Balance	(758,827)	(621,778)	(524,383)	97,395
Fund Balance at Beginning of Year	1,701,435	1,701,435	1,701,435	-
Prior Year Encumbrances Appropriated	<u>215,400</u>	<u>215,400</u>	<u>215,400</u>	<u>-</u>
Fund Balance (Deficit) at End of Year	<u>\$ 1,158,008</u>	<u>\$ 1,295,057</u>	<u>\$ 1,392,452</u>	<u>\$ 97,395</u>

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Statement of Fund Net Assets
Governmental Activities - Internal Service Fund
June 30, 2005

	Internal Service
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 197,744
<i>Total Assets</i>	197,744
LIABILITIES:	
Current Liabilities:	
Intergovernmental Payable	14,693
Claims Payable	259,499
<i>Total Liabilities</i>	274,192
NET ASSETS:	
Unrestricted	(76,448)
<i>Total Net Assets</i>	\$ (76,448)

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	Internal Service
OPERATING REVENUES:	
Charges for Services	\$ 2,508,458
<i>Total Operating Revenues</i>	<i>2,508,458</i>
OPERATING EXPENSES:	
Purchased Services	160,068
Claims	2,514,752
<i>Total Operating Expenses</i>	<i>2,674,820</i>
<i>Changes in Net Assets</i>	(166,362)
<i>Net Assets at Beginning of Year</i>	<i>89,914</i>
<i>Net Assets at End of Year</i>	<i>\$ (76,448)</i>

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Statement of Cash Flows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	Internal Service Fund
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Customers	\$2,508,458
Cash Payments for Claims	(2,373,872)
Cash Payments for Purchased Services	(160,068)
<i>Net Cash Used by Operating Activities</i>	(25,482)
<i>Cash Flows from Noncapital Financing Activities:</i>	
Repayment of Loans from Other Governments	40,052
Net Cash Provided by Noncapital Financing Activities	40,052
Increase in Cash and Cash Equivalents	14,570
Cash and Cash Equivalents at Beginning of Year	183,174
Cash and Cash Equivalents at End of Year	\$197,744
<i>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</i>	
Operating Income	(\$166,362)
<i>Changes in Assets and Liabilities:</i>	
Increase in Claims Payable	140,880
<i>Net Cash Used by Operating Activities</i>	(\$25,482)

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	<u>\$ 553</u>	<u>\$ 27,301</u>
LIABILITIES:		
Undistributed Monies	<u>\$ -</u>	<u>\$ 27,301</u>
NET ASSETS:		
Held in Trust for Scholarships	<u>\$ 553</u>	

The notes to the basic financial statements are an integral part of this statement.

Adena Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

	<u>Private Purpose Trust</u>
ADDITIONS:	
Gifts and Contributions	\$ 2,053
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>2,502</u>
Change in Net Assets	(449)
Net Assets Beginning of Year	<u>1,002</u>
Net Assets End of Year	<u>\$ 553</u>

The notes to the basic financial statements are an integral part of this statement.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

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

The School District was established in 1965 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 123 square miles. It is located in Ross County, and includes all of the Villages of Clarksburg and Frankfort, and portions of Concord, Deerfield, and Union Townships. It is staffed by 51 non-certificated employees, 82 certificated full-time teaching personnel and 5 administrative employees who provide services to 1,246 students and other community members. The School District currently operates two instructional buildings.

Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Adena Local School District, this includes general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District participates in eight organizations, five of which are defined as jointly governed organizations, one as a claims servicing pool, and two as insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross County Career and Technology Center, the Great Seal Education Network of Tomorrow, the Pilasco-Ross Special Education Regional Resource Center, Coalition of Rural and Appalachian Schools, the Ross County School Employees Insurance Consortium, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The activity of the Internal Service Fund is eliminated to avoid “doubling up” revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental and those that are classified as business-type, however, the School District has no activities that are classified as business-type.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District’s governmental activities. 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 charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

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

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

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund The Internal Service Fund is used to account for medical, life, and dental benefits provided to employees.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Type 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has two fiduciary funds: a private purpose trust fund used to account for college scholarship donations and an agency fund used to account for student activity programs.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenditures) in total net assets.

Fund Financial Statements 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, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of 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 School District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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 School District, available means expected to be received within sixty days of fiscal year end.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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, certain grants, and charges for services and sales.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

During fiscal year 2005, the School District's investments were limited to the State Treasury Assets Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund and all other governmental funds during fiscal year 2005 amounted to \$47,166 and \$7,619, respectively.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

G. Capital Assets

The School District's only capital assets are general assets. General capital assets are those assets specifically related to governmental activities. 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 fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. 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 capitalized.

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:

Description	Estimated Lives
Land Improvements	7-30 years
Buildings and Improvements	50 years
Furniture, Fixtures, Equipment, and Textbooks	5 – 20 years
Vehicles	7-8 years

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after 15 years of current service with the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due to each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

J. Accrued Liabilities and Long-term Obligations

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

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

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

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Transactions

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 the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

M. Estimates

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

N. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the School District for the purchase of textbooks and instructional materials. See Note 16 for additional information regarding set-asides.

O. Fund Balance Reserves

The School 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, property taxes and textbooks and instructional materials.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers." GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. The implementation of GASB Statement No. 40 had no effect on the School District's financial statements. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of GASB Technical Bulletin No. 2004-2 did not have a significant effect on the School District's financial statements.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 – ACCOUNTABILITY

A. Accountability

At June 30, 2005, the Food Service and Title VI-R Special Revenue Funds had deficit fund balances of \$13,279 and \$2,115, respectively, and the Internal Service Fund had deficit net assets of \$76,448, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget 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 GAAP (modified accrual) basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type and non-expendable trust fund (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance	
General Fund	
GAAP Basis	(\$558,329)
Revenue Accruals	11,969
Expenditure Accrual	133,347
Encumbrances	<u>(111,370)</u>
Budget Basis	<u><u>(\$524,383)</u></u>

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

Protection of the School 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.

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 School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: The School District's deposits are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At year-end, the carrying amount of the School District's deposits was \$384,658, and the bank balance was \$479,515. Of the bank balance:

- (1) \$200,000 was covered by federal depository insurance (Category 1).
- (2) \$279,515 was uninsured and uncollateralized (Category 3). Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Uncategorized</u>	<u>Market Value</u>	<u>Weighted Average Maturity (Yrs.)</u>
STAROhio	<u>\$ 2,058,865</u>	<u>\$ 2,058,865</u>	<u>-</u>

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits its investments to Repurchase Agreements, US Government Securities and STAR Ohio. Investments in STAROhio were rated AAAm by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy allows investments in Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% of its investments in STAROhio.

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 investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Cash and cash equivalents are defined to include investments included within the School District's cash management pool and investments with a maturity date of three months or less.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 2,443,523	\$ -
Investments		
STAROhio	(2,058,865)	2,058,865
GASB Statement No. 3	\$ 384,658	\$ 2,058,865

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are twenty-five percent of true value. The assessed values upon which the fiscal year 2005 taxes were:

	2004 Second-Half Collections		2005 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 70,734,380	90.31%	\$ 72,316,210	90.45%
Public Utility	5,135,190	6.56%	5,460,760	6.83%
Tangible Personal Property	2,455,140	3.13%	2,170,640	2.72%
Total Assessed Value	\$ 78,324,710	100.00%	\$ 79,947,610	100.00%
 Tax rate per \$1,000 of assessed valuation	\$ 37.30		\$ 37.00	

Tangible personal property taxes paid 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.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES (Continued)

The School District receives property taxes from Ross County. The Ross County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005 was \$191,550 in the General Fund and \$27,926 in all over governmental funds and is recognized as revenue.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes and intergovernmental grants and interfund. 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. All receivables are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
<i>Non-Major Special Revenue Funds:</i>	
Title VI-B	\$ 22,448
Title I	23,001
Safe and Drug Free Schools	48
Title II-A	1,801
21 st Century	<u>6,098</u>
Total Intergovernmental Receivables	<u>\$53,396</u>

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

A summary of the changes in general capital assets during fiscal year 2005 follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$677,044	\$0	\$0	\$677,044
Total Capital Assets not being Depreciated	677,044	0	0	677,044
Depreciable Capital Assets:				
Land Improvements	2,654,503	11,531	0	2,666,034
Buildings and Improvements	21,109,986	0	0	21,109,986
Furniture, Fixtures, Equipment and Textbooks	3,533,241	131,620	(54,687)	3,610,174
Vehicles	917,845	65,594	(26,800)	956,639
Total Capital Assets being Depreciated	28,215,575	208,745	(81,487)	28,342,833
Less Accumulated Depreciation				
Land Improvements	(499,149)	(134,582)	0	(633,731)
Buildings and Improvements	(1,651,232)	(651,134)	0	(2,302,366)
Furniture, Fixtures, Equipment and Textbooks	(1,191,223)	(420,742)	48,119	(1,563,846)
Vehicles	(606,914)	(68,917)	26,800	(649,031)
Total Accumulated Depreciation	(3,948,518)	(1,275,375)**	74,919	(5,148,974)
Total Capital Assets being Depreciated, Net	24,267,057	(1,066,630)	(6,568)	23,193,859
Capital Assets, Net	\$24,944,101	(\$1,066,630)	(\$6,568)	\$23,870,903

** Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,047,051
Special	15,040
Vocational	8,186
Support Services:	
Pupils	863
Instructional Staff	55,292
Administration	4,930
Fiscal	2,682
Operation and Maintenance of Plant	34,342
Pupil Transportation	69,912
Extracurricular Activities	20,878
Non-Instructional Services	16,199
Total Depreciation Expense	<u>\$1,275,375</u>

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the School District contracted with Mid-America Insurance for fleet insurance, liability insurance, inland marine coverage, and property insurance. Insurance coverage provided is as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$ 26,353,096
Inland Marine Coverage	
Athletics (\$50 deductible)	18,500
Video Equipment (\$100 deductible)	4,520
Band Equipment (\$100 deductible)	128,810
EDP Equipment (\$250 deductible)	583,830
Crime Insurance	
Frankfort Schools	5,000
Automobile Liability - Comprehensive	2,000,000
Uninsured Motorists (\$500 deductible)	
Each Accident	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT (Continued)

During fiscal year 2005, the School District participated in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 18).

General Liability:

Bodily Injury and Property Damage - Each Occurrence Limit and Sexual Abuse Injury - Each Sexual Abuse Offense Limit	\$ 1,000,000
Personal and Advertising Injury - Each Offense Limit	1,000,000
Fire Damage - Any One Event Limit	500,000
Medical Expense - Any One Person Limit	10,000
Medical Expense - Each Accident Limit	10,000
General Aggregate Limit	3,000,000
Products - Completed Operations Limit	1,000,000
Employee Benefits Liability Endorsement:	
Employee Benefits Injury - Each Offense Limit	1,000,000
Employee Benefits Injury - Aggregate Limit	3,000,000
Employer's Liability and Stop Gap Endorsement	
Bodily Injury by Accident - Each Accident Limit	1,000,000
Bodily Injury by Disease - Endorsement Limit	1,000,000
Bodily Injury by Disease - Each Employee Limit	1,000,000
Education Legal Liability Coverage (\$2,500 deductible):	
Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Injury Aggregate Limit	2,000,000
Employment Practices Injury Limit	1,000,000
Employment Practices Injury Aggregate Limit	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no reduction in coverage from the prior year.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT (Continued)

Medical/surgical and dental insurance is offered to employees through the Self-Insurance Internal Service Fund. The School District is a member of the Ross County School Employees Insurance Consortium, a claims servicing pool (see Note 18), consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums

are paid to the fiscal agent, who in turn pays the claims on the School District's behalf. The claims liability of \$259,499 reported in the Self-Insurance Internal Service Fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claim Payments</u>	<u>Balance at</u> <u>End of Year</u>
2004	\$ 92,336	\$1,530,245	\$1,503,962	\$ 118,619
2005	118,619	2,514,752	2,373,872	259,499

NOTE 11 -DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available, stand alone report that includes financial statements and required supplementary information for SERS. 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 (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; 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 SERS's Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$155,694, \$125,348, and \$126,151, respectively; 41% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$92,179 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 -DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 -DEFINED BENEFIT PENSION PLANS (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$615,527, \$528,545, and \$521,476, respectively; 84% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. \$101,439 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

K. Social Security System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

The School 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 on a pay-as-you-go basis.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the 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, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$45,006 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. 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 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$112,505.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.6 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, certificated employees receive payment for one-fourth of accumulated sick days with maximum payments as follows: 39 days maximum for one to nine years of service; 44 days maximum for 10 to 19 years of service; and 49 days maximum for 20 or more years of service. Classified employees, upon retirement, receive payment for one-fourth of accumulated sick days with maximum payments as follows: 37 days maximum for one to nine years of service; 42 days maximum for 10 to 19 years of service; and 47 days maximum for 20 or more years of service.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - OTHER EMPLOYEE BENEFITS (Continued)

B. Life Insurance

The School District provides life insurance to most employees through United States Life Insurance Company.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

NOTE 14 – CAPITAL LEASES – LESSEE DISCLOSURE

The School District has entered into capitalized leases for two copiers. Each lease meets the criteria of a capital lease as defined by the Statement of Financial Accounting Standards 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.

Future minimum lease payments through 2008 are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 36,239
2007	23,306
2008	<u>19,422</u>
Total	78,967
Less: Amount Representing Interest	<u>(7,530)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 71,437</u>

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Amount Outstanding 06/30/2004	Additions	Deductions	Amount Outstanding 06/30/05	Amount Due Within One Year
<u>General Obligation Bonds:</u>					
1999 School Improvement Bonds 5.36%	\$ 2,450,000	\$ -	\$ 85,000	\$2,365,000	\$ 90,000
<u>Other Long-Term Obligations:</u>					
Capital Leases Payable	101,038	-	29,601	71,437	31,924
Compensated Absences Payable	604,090	584,361	604,090	584,361	12,394
Total Long-Term Obligations	<u>\$ 3,155,128</u>	<u>\$ 584,361</u>	<u>\$ 718,691</u>	<u>\$3,020,798</u>	<u>\$ 134,318</u>

1999 School Improvement Bonds – On August 1, 1999, the School District issued \$2,878,000 in voted general obligation bonds for the purpose of the construction of a new education complex. The bonds were issued for a twenty-two year period with final maturity at December 1, 2021. The bonds will be retired from the Debt Service Fund.

The serial bonds, issued at \$1,768,000 with bonds maturing on December 1, 2010, December 1, 2011, December 1, 2019, and December 1, 2021 are subject to optional redemption, in whole or in part on any date and by lot within a maturity, at the option of the School District on or after December 1, 2009 as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2009 through November 30, 2010	101%
December 1, 2010 and thereafter	100%

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

The term bonds, issued at \$1,110,000, maturing on December 1, 2016 to December 1, 2021 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

Fiscal Year Ending June 30,	Amount
2017	\$ 160,000
2018	170,000
2019	180,000
2020	190,000
2021	200,000
2022	<u>210,000</u>
Total	<u>\$1,110,000</u>

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Fund. Capital leases will be paid from the General Fund.

The School District's overall legal debt margin was \$4,830,285 with an unvoted debt margin of \$79,948 at June 30, 2005.

Principal and interest requirements to retire the School Improvement Bonds outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Serial Bond Principal	Serial Bond Interest	Term Bond Principal	Term Bond Interest	Total
2006	\$ 90,000	\$ 69,162	-	\$ 61,460	\$ 220,622
2007	90,000	65,033	-	61,460	216,493
2008	95,000	59,991	-	61,460	216,451
2009	100,000	55,212	-	61,460	216,672
2010	105,000	50,586	-	61,460	217,046
2011-2015	625,000	144,787	-	307,300	1,077,087
2016-2020	150,000	14,181	700,000	233,520	1,097,701
2021-2022	-	-	410,000	22,740	432,740
	<u>\$ 1,255,000</u>	<u>\$ 458,952</u>	<u>\$ 1,110,000</u>	<u>\$ 870,860</u>	<u>\$ 3,694,812</u>

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 – SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside, in the General fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisitions. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2004	\$ 55,361	\$ 15,207
Current Year Set-aside Requirement	159,085	159,085
Current Year Offsets	-	(35,653)
Qualifying Disbursements	(125,632)	(145,237)
Set-aside Reserve Balance as of June 30, 2005	\$ 88,814	\$ (6,598)

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Jackson, Vinton, Pickaway, Gallia, Ross, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$48,869 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Pickaway-Ross County Career and Technology Center

The Pickaway-Ross County Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, each of which possesses its own budgeting and taxing authority. The School District provides vocational instruction to students in both Pickaway and Ross Counties. To obtain financial information write to the Pickaway-Ross county Career and Technology Center, Ben Van Horn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Great Seal Education Network of Tomorrow

The Great Seal Education Network of Tomorrow is a regional council of governments (the “Council”) consisting of twelve city, local, and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members. The Council possesses its own budgeting and taxing authority. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

D. Pilasco-Ross Special Education Regional Resource Center

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross, and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a Board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross County Career and Technology Center, Shawnee State University, and Pike-Ross, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45662.

E. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for School District administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for School District personnel. The Council is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Council. The School District paid \$300 to the Coalition for services provided during the year.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18 – CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

A. Ross County School Employees Insurance Consortium

The School District is a member of the Ross County School Employees Insurance Consortium (the “Consortium”), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. The Consortium provides medical/surgical, dental, vision, or life insurance through a third party administrator, Klais and Company. The Consortium’s business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon, who serves as Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

B. Ohio School Boards Association Workers’ Compensation Group Rating Plan

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

C. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs, and other administrative services. The OSP’s business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc., and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and market representative, which establishes agreements between OSP and member schools.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 19 – INTERFUND ACTIVITY

Interfund balances at June 30, 2005, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2006 fiscal year:

<u>Interfund Loans</u>	<u>Receivable</u>	<u>Payable</u>
General fund	\$9,919	\$0
Nonmajor Special Revenue Funds		
District Managed Funds		7,112
Chapter I		445
Title IV		48
Title VI-R		2,314
	<hr/>	<hr/>
Total Nonmajor Special Revenue Funds	0	9,919
Total Interfund Receivables/Payables	<u><u>\$9,919</u></u>	<u><u>\$9,919</u></u>

The amounts due to the General fund are the result of the School District moving unrestricted monies to support grant funds whose grants operate on a reimbursement basis. The General fund will be reimbursed when funds become available in the non-major special revenue funds.

NOTE 20 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient.

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State’s compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

ADENA LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 21 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

The School District is not party to legal proceedings.

Adena Local School District
 Ross County
 Schedule of Federal Awards Receipts and Expenditures
 For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	NA	10.550	\$ -	\$ 23,746	\$ -	\$ 23,746
National School Lunch Program	LLP4	10.555	103,242	-	103,242	-
Total United States Department of Agriculture - Nutrition Cluster			103,242	23,746	103,242	23,746
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title 1 Grants to Local Education Agencies	C1S1	84.010	241,948	-	242,792	-
Special Education - Grants to States	6BSF	84.027	233,638	-	259,664	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	7,453	-	7,501	-
Twenty-First Century Community Learning Centers	T1S1	84.287	268,902	-	262,886	-
State Grants for Innovative Programs	C2S1	84.298	5,408	-	5,408	-
Education Technology State Grants	TJS1	84.318	6,043	-	5,205	-
Rural Education	RUS1	84.358	1,529	-	1,529	-
Improving Teacher Quality State Grants	TRS1	84.367	82,131	-	82,329	-
Total United States Department of Education			847,052	-	867,314	-
National Foundation on the Arts and the Humanities						
Office of Library Services, Institute of Museum and Library Services						
<i>Passed through State Library of Ohio</i>						
<i>Office of Library Services</i>						
State Library Program	V-1-04	45.310	-	-	2,500	-
Total Federal Financial Assistance			\$ 950,294	\$ 23,746	\$ 973,056	\$ 23,746

NA - Not Available

See accompanying notes to the schedule of federal awards receipts and expenditures

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the 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.

BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Adena Local School District
3367 County Road 550
Frankfort, OH 45628

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Adena Local School District (the District), Ross County, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 10, 2006, wherein we indicated the District implemented GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Members of the Board

Adena Local School District

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

January 10, 2006

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board
Adena Local School District
3367 County Road 550
Frankfort, OH 45628

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Balestra, Harr & Scherer, CPAs, Inc.

January 10, 2006

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2005
(Continued)**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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ADENA LOCAL SCHOOL DISTRICT

ROSS 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 23, 2006**