



**Auditor of State
Betty Montgomery**

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Adena Local School District
Ross County
3367 County Road 550
Frankfort, Ohio 45628

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Adena Local School District, Ross County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

April 11, 2005

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

The discussion and analysis of the Adena Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. 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 Government issued June, 1999.*" Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information from this report. Subsequent reports will include the comparative information.

Financial Highlights

- Net assets of governmental activities decreased \$1,109,740 which represents an 4.45 percent decrease from 2003. This is due primarily to current year depreciation expense and expenses generally exceeding revenues due to increased salaries, benefits and utilities.
- Total assets of governmental activities decreased by \$1,076,262. Capital assets decreased by \$759,668 due to the current year depreciation and the sale of land, while cash and other assets decreased by \$316,594.
- General revenues accounted for \$7,532,246 in revenue or 79.40 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions, and interest accounted for \$1,809,143 or 19.07 percent of total revenues. The special item of the gain on sale of land for \$145,345 accounted for 1.53 percent of the total revenues of \$9,486,734.
- The School District had \$10,596,474 in expenses related to governmental activities; only \$1,809,143 of these expenses were offset by program specific charges for services and sales, grants, contributions, or interest. General revenues (primarily grants and entitlements) of \$7,532,246 were used to provide for these programs along with net assets from the prior year.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

Using this Basic Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Adena Local School District as a financial whole, an entire operating entity.

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The major fund for the Adena Local School District is the General Fund.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2004?"

The *Statement of Net Assets* and the *Statement of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major fund.

Reporting the School District's Most Significant Funds (Continued)

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

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**

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

The School District as a Whole

Recall that 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 2004 and 2003:

(Table 1)
Net Assets
Governmental Activities

	2004	2003
Assets		
Current Assets	\$4,791,784	\$5,108,378
Capital Assets	24,944,101	25,703,769
Total Assets	29,735,885	30,812,147
 Liabilities		
Long-Term Liabilities	3,155,128	3,226,740
Other Liabilities	2,761,681	2,656,591
Total Liabilities	5,916,809	5,883,331
 Net Assets		
Invested in Capital Assets, Net of Related Debt	22,393,063	23,045,231
Restricted	769,382	866,137
Unrestricted	656,631	1,017,448
Total Net Assets	\$23,819,076	\$24,928,816

Total assets decreased \$1,076,262. Equity in pooled cash and cash equivalents decreased \$282,331. Capital Assets decreased by \$759,668 due to current year depreciation and the sale of land. Unrestricted net assets decreased mainly due to an increase in wages, benefits and operating cost of the facility, thereby reducing available cash.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: program revenues and general revenues. Program revenues are defined as charges for services and sales, operating grants, contributions and interest, and capital grants and contributions. General revenues include taxes and unrestricted grants, such as State foundation support.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

**UNAUDITED
(Continued)**

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

(Table 2)

Change in Net Assets
Governmental Activities

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$739,444
Operating Grants, Contributions, and Interest	1,028,075
Capital Grants and Contributions	41,624
Total Program Revenues	1,809,143
General Revenues:	
Property Taxes	1,733,422
Grants and Entitlements not Restricted to Specific Programs	5,657,502
Investment Earnings	52,873
Miscellaneous	88,449
Total General Revenues	7,532,246
Special Item - Gain on Sale of Land	145,345
Total Revenues	9,486,734
 Program Expenses	
Instruction:	
Regular	4,468,794
Special	1,146,976
Vocational	48,585
Support Services:	
Pupils	422,805
Instructional Staff	517,035
Board of Education	34,406
Administration	927,044
Fiscal	266,161
Operation and Maintenance of Plant	1,093,318
Pupil Transportation	643,372
Central	140,081
Operation of Non-Instructional Services:	
Food Service Operations	451,281
Extracurricular Activities	289,810
Interest and Fiscal Charges	146,806
Total Expenses	10,596,474
Decrease in Net Assets	(\$1,109,740)

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

Grants and Entitlements not Restricted to Specific Programs made up 59.64 percent of total revenues for governmental activities of the Adena Local School District for fiscal year 2004. Property Tax revenue made up 18.27 percent of total revenues for governmental activities for a total of 77.91 percent of all revenue coming from property taxes and grants and entitlements not restricted to specific programs.

Regular instruction makes up 42.17 percent of governmental program expenses. Support services expenses make up 38.17 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants, including interest, offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, fees and donations, and interest. Comparisons to 2003 have not been made because they are not available.

(Table 3)
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
Instruction	\$5,664,355	\$4,582,118
Support Services	4,044,222	3,879,310
Operation of Non-Instructional Services (Food Services)	451,281	90,298
Extracurricular Activities	289,810	88,799
Interest and Fiscal Charges	146,806	146,806
Total Expenses	<u>\$10,596,474</u>	<u>\$8,787,331</u>

The School District's Funds

Information about the School District's major fund starts on page 14. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$9,389,722 and expenditures of \$10,032,220. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$379,792. This is due primarily to a reduction in State aid.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

General Fund - Budget 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 2004 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 18, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, original budget basis revenue was \$8,284,023 with final budget basis revenues of \$7,885,650. The difference of \$398,373 was due primarily to a decrease in State foundation and tax monies received compared to the original estimate. Original budget basis expenditures were \$8,997,255 with final budget basis expenditures of \$8,928,784. The difference of \$68,471 was due primarily to the School District reducing expenditures due to the loss of revenue.

The School District's ending unobligated cash balance was \$219,346 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$24,944,101 invested in land, land improvements, buildings and improvements, furniture, fixtures, equipment and textbooks, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003:

(Table 4)
Capital Assets at June 30
(Net of Depreciation)
Governmental Activities

	2004	2003
Land	\$677,044	\$820,699
Land Improvements	2,155,354	2,202,836
Buildings and Improvements	19,458,754	20,094,697
Furnitures, Fixtures, Equipment and Textbooks	2,342,018	2,347,998
Vehicles	310,931	237,539
Totals	\$24,944,101	\$25,703,769

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

The primary decrease was due to current year depreciation and the sale of land. (See Note 9 in the Notes to the Basic Financial Statements).

Debt

At June 30, 2004 the School District had \$2,450,000 in bonds outstanding, of which \$85,000 is due within one year. The School District also had capital lease obligations outstanding of \$101,038, of which \$29,601 is due within one year. Table 5 summarizes the debt outstanding:

(Table 5)

Outstanding Debt, at Year End
Governmental Activities

	2004	2003
General Obligation Bonds:		
1999 School Improvement Bonds	\$2,450,000	\$2,530,000
Capital Leases	101,038	128,538
Totals	\$2,551,038	\$2,658,538

The General Obligation Bonds were issued August 1, 1999 in the amount of \$2,878,000. The voted general obligation bonds were issued for the purpose of constructing 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.

At June 30, 2004 the School District's overall legal debt margin was \$4,779,422 with an unvoted debt margin of \$78,325. (See Note 15 in the Notes to the Basic Financial Statements).

Current Issues

The Adena Local School District is proud of our new K-12 facility; however, we have been experiencing a declining enrollment since we moved into the new facility in the fall of 2001. The new facility has over 190,000 square feet, approximately one-third more space than our previous buildings provided. The additional space requires higher utility costs and even more personnel to operate properly.

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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

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.

Contacting the School District's Financial Management

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

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**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$2,806,316
Cash and Cash Equivalents With Fiscal Agent	13,809
Materials and Supplies Inventory	6,852
Accounts Receivable	264
Intergovernmental Receivable	129,755
Prepaid Items	31,174
Taxes Receivable	1,803,614
Capital Assets:	
Land	677,044
Depreciable Capital Assets, Net	<u>24,267,057</u>
 <i>Total Assets</i>	 <u>29,735,885</u>
 <u>Liabilities:</u>	
Accounts Payable	39,184
Accrued Wages and Benefits Payable	734,818
Intergovernmental Payable	272,272
Accrued Interest Payable	11,382
Matured Compensated Absences Payable	12,925
Deferred Revenue	1,572,481
Claims Payable	118,619
Long-Term Liabilities:	
Due Within One Year	183,550
Due In More Than One Year	<u>2,971,578</u>
 <i>Total Liabilities</i>	 <u>5,916,809</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	22,393,063
Restricted for:	
Debt Service	172,087
Capital Projects	360,345
Other Purposes	166,382
Set-Asides	70,568
Unrestricted	<u>656,631</u>
 <i>Total Net Assets</i>	 <u><u>\$23,819,076</u></u>

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<i>Governmental Activities</i>					
Instruction:					
Regular	\$4,468,794	\$294,273	\$94,406	\$26,400	(\$4,053,715)
Special	1,146,976	0	667,158	0	(479,818)
Vocational	48,585	0	0	0	(48,585)
Support Services:					
Pupils	422,805	0	9,469	0	(413,336)
Instructional Staff	517,035	13,823	98,665	0	(404,547)
Board of Education	34,406	0	0	0	(34,406)
Administration	927,044	0	5,166	0	(921,878)
Fiscal	266,161	0	0	0	(266,161)
Operation and Maintenance of Plant	1,093,318	0	0	0	(1,093,318)
Pupil Transportation	643,372	0	22,111	15,224	(606,037)
Central	140,081	0	454	0	(139,627)
Operation of Non-Instructional Services:					
Food Service Operations	451,281	268,670	92,313	0	(90,298)
Extracurricular Activities	289,810	162,678	38,333	0	(88,799)
Interest and Fiscal Charges	146,806	0	0	0	(146,806)
<i>Total Governmental Activities</i>	\$10,596,474	\$739,444	\$1,028,075	\$41,624	(8,787,331)
<i>General Revenues</i>					
Property Taxes Levied for:					
					1,492,370
					208,980
					32,072
					5,657,502
					52,873
					88,449
					7,532,246
					145,345
					7,677,591
					(1,109,740)
					24,928,816
					\$23,819,076

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,846,270	\$720,113	\$2,566,383
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	70,568	0	70,568
Receivables:			
Taxes	1,554,456	249,158	1,803,614
Accounts	0	264	264
Intergovernmental	0	104,396	104,396
Interfund	29,430	0	29,430
Prepaid Items	24,871	6,303	31,174
Materials and Supplies Inventory	2,159	4,693	6,852
	<u>\$3,527,754</u>	<u>\$1,084,927</u>	<u>\$4,612,681</u>
 <i>Total Assets</i>			
 <u>Liabilities:</u>			
Accounts Payable	\$34,883	\$4,301	\$39,184
Accrued Wages and Benefits Payable	648,783	86,035	734,818
Intergovernmental Payable	155,904	14,453	170,357
Interfund Payable	0	29,430	29,430
Matured Compensated Absences Payable	12,925	0	12,925
Deferred Revenue	1,380,367	240,295	1,620,662
	<u>2,232,862</u>	<u>374,514</u>	<u>2,607,376</u>
 <i>Total Liabilities</i>			
 <u>Fund Balances:</u>			
Reserved for Encumbrances	111,130	15,728	126,858
Reserved for Property Taxes	174,089	29,941	204,030
Reserved for Textbooks and Instructional Materials	55,361	0	55,361
Reserved for Capital Improvements	15,207	0	15,207
Unreserved, Undesignated, Reported in:			
General Fund	939,105	0	939,105
Special Revenue Funds	0	152,704	152,704
Debt Service Fund	0	154,213	154,213
Capital Projects Funds	0	357,827	357,827
	<u>1,294,892</u>	<u>710,413</u>	<u>2,005,305</u>
 <i>Total Fund Balances</i>			
	<u>\$3,527,754</u>	<u>\$1,084,927</u>	<u>\$4,612,681</u>
 <i>Total Liabilities and Fund Balances</i>			

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$2,005,305
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
 Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	677,044	
Other capital assets	28,215,575	
Accumulated depreciation	<u>(3,948,518)</u>	
Total capital assets		24,944,101
 Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Delinquent property taxes	27,103	
Intergovernmental	<u>21,078</u>	
		48,181
 The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
		89,914
 Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and are therefore not reported in the funds.		
		(101,915)
 Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds payable	(2,450,000)	
Accrued interest on bonds	(11,382)	
Capital leases	(101,038)	
Compensated absences	<u>(604,090)</u>	
Total liabilities		<u>(3,166,510)</u>
 Net Assets of Governmental Activities		 <u><u>\$23,819,076</u></u>

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$1,503,518	\$243,046	\$1,746,564
Intergovernmental	5,968,009	781,367	6,749,376
Interest	49,237	3,994	53,231
Tuition and Fees	293,973	0	293,973
Extracurricular Activities	43,897	131,914	175,811
Rentals	300	0	300
Charges for Services and Sales	0	269,360	269,360
Contributions and Donations	830	11,828	12,658
Miscellaneous	82,539	5,910	88,449
<i>Total Revenues</i>	<u>7,942,303</u>	<u>1,447,419</u>	<u>9,389,722</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	3,935,518	159,116	4,094,634
Special	695,887	370,135	1,066,022
Vocational	2,280	0	2,280
Support Services:			
Pupils	383,389	9,470	392,859
Instructional Staff	412,705	97,338	510,043
Board of Education	34,274	0	34,274
Administration	847,176	5,166	852,342
Fiscal	244,888	5,789	250,677
Operation and Maintenance of Plant	957,155	19,053	976,208
Pupil Transportation	726,389	0	726,389
Central	123,771	468	124,239
Operation of Non-Instructional Services:			
Food Service Operations	1,066	356,977	358,043
Extracurricular Activities	153,672	178,634	332,306
Capital Outlay	54,078	3,223	57,301
Debt Service:			
Principal Retirement	27,500	80,000	107,500
Interest and Fiscal Charges	8,740	138,363	147,103
<i>Total Expenditures</i>	<u>8,608,488</u>	<u>1,423,732</u>	<u>10,032,220</u>
Excess of Revenues Over (Under) Expenditures	<u>(666,185)</u>	<u>23,687</u>	<u>(642,498)</u>
<u>Other Financing Sources (Uses):</u>			
Proceeds from Sale of Assets	292,000	0	292,000
Transfers In	0	5,607	5,607
Transfers Out	(5,607)	0	(5,607)
<i>Total Other Financing Sources (Uses)</i>	<u>286,393</u>	<u>5,607</u>	<u>292,000</u>
<i>Net Change in Fund Balances</i>	(379,792)	29,294	(350,498)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,674,684</u>	<u>681,119</u>	<u>2,355,803</u>
<i>Fund Balances End of Year</i>	<u>\$1,294,892</u>	<u>\$710,413</u>	<u>\$2,005,305</u>

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds (\$350,498)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	687,801	
Depreciation expense	(1,271,938)	
Excess of depreciation expense over capital outlay		(584,137)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets is removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Loss on Sale of Capital Assets	(28,876)	
Proceeds on Sale of Capital Assets	(292,000)	
Special Item Gain on Sale of Land	145,345	
Net loss on disposal capital assets		(175,531)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	(13,142)	
Intergovernmental	(35,191)	
		(48,333)

The internal service fund used by management to charge the cost of insurance to individual funds is reported in the entity wide statement of activities. (12,598)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond payments	80,000	
Capital lease payments	27,500	
Total long-term debt repayment		107,500

Some items 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. These activities consist of:

Increase in compensated absences payable	(35,888)	
Decrease in accrued interest payable	297	
Increase in intergovernmental payable	(10,552)	
Total (increase)/decrease		(46,143)

Change in Net Assets of Governmental Activities (\$1,109,740)

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		Actual	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property Taxes	\$1,661,019	\$1,475,640	\$1,475,640	\$0
Intergovernmental	6,135,238	5,937,931	5,942,025	4,094
Interest	50,936	49,298	49,298	0
Tuition and Fees	304,179	294,397	294,397	0
Extracurricular Activities	45,356	43,897	43,897	0
Rentals	310	300	300	0
Contributions and Donations	858	830	830	0
Miscellaneous	86,127	83,357	83,357	0
<i>Total Revenues</i>	<u>8,284,023</u>	<u>7,885,650</u>	<u>7,889,744</u>	<u>4,094</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	3,664,653	3,694,907	3,685,140	9,767
Special	671,052	668,420	658,528	9,892
Vocational	5,614	3,698	2,906	792
Other	326,195	332,347	259,121	73,226
Support Services:				
Pupils	391,687	390,958	383,823	7,135
Instructional Staff	411,741	435,344	412,187	23,157
Board of Education	61,755	51,029	44,215	6,814
Administration	861,968	837,954	830,378	7,576
Fiscal	273,186	258,651	243,208	15,443
Operation and Maintenance of Plant	1,003,446	1,053,934	1,042,859	11,075
Pupil Transportation	840,153	854,252	824,757	29,495
Central	138,820	125,354	122,641	2,713
Operation of Non-Instructional Services	1,071	1,086	1,066	20
Extracurricular Activities	151,456	155,213	153,558	1,655
Capital Outlay	194,458	65,637	54,078	11,559
<i>Total Expenditures</i>	<u>8,997,255</u>	<u>8,928,784</u>	<u>8,718,465</u>	<u>210,319</u>
Excess of Revenues Under Expenditures	<u>(713,232)</u>	<u>(1,043,134)</u>	<u>(828,721)</u>	<u>214,413</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from Sale of Assets	294,000	292,000	292,000	0
Refund of Prior Year Expenditures	0	46,319	46,319	0
Transfers Out	(5,000)	(10,000)	(5,607)	4,393
Advances In	10,501	10,451	10,451	0
Advances Out	0	(29,970)	(29,430)	540
<i>Total Other Financing Sources (Uses)</i>	<u>299,501</u>	<u>308,800</u>	<u>313,733</u>	<u>4,933</u>
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	<u>(413,731)</u>	<u>(734,334)</u>	<u>(514,988)</u>	<u>219,346</u>
<i>Fund Balance at Beginning of Year</i>	1,931,623	1,931,623	1,931,623	0
<i>Prior Year Encumbrances Appropriated</i>	<u>284,803</u>	<u>284,803</u>	<u>284,803</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$1,802,695</u>	<u>\$1,482,092</u>	<u>\$1,701,438</u>	<u>\$219,346</u>

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Fund Net Assets
Internal Service Fund
June 30, 2004**

	<u>Self-Insurance</u>
<u>Current Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$169,365
Cash and Cash Equivalents with Fiscal Agent	<u>13,809</u>
<i>Total Current Assets</i>	<u>183,174</u>
<u>Non-Current Assets:</u>	
Receivables:	
Intergovernmental	<u>25,359</u>
<i>Total Assets</i>	<u>208,533</u>
<u>Liabilities:</u>	
<u>Current Liabilities:</u>	
Claims Payable	<u>\$118,619</u>
<u>Net Assets:</u>	
Unrestricted	<u>\$89,914</u>

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Self-Insurance</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$1,676,482</u>
<i>Total Operating Revenues</i>	<u>1,676,482</u>
<u>Operating Expenses:</u>	
Purchased Services	158,835
Claims	<u>1,530,245</u>
<i>Total Operating Expenses</i>	<u>1,689,080</u>
<i>Change in Net Assets</i>	(12,598)
<i>Net Assets at Beginning of Year</i>	<u>102,512</u>
<i>Net Assets at End of Year</i>	<u><u>\$89,914</u></u>

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Self-Insurance</u>
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>	
<i><u>Cash Flows from Operating Activities:</u></i>	
Interfund Services Provided	\$ 1,676,482
Cash Payments to Suppliers for Goods and Services	(158,835)
Cash Payments for Claims	(1,503,962)
Net Cash Provided by Operating Activities	13,685
<i><u>Cash Flows from Noncapital Financing Activities:</u></i>	
Repayment of Loans from Other Governments	36,479
Loans to Other Governments	(25,359)
Net Cash Provided by Noncapital Financing Activities	11,120
Increase in Cash and Cash Equivalents	24,805
Cash and Cash Equivalents at Beginning of Year	158,369
Cash and Cash Equivalents at End of Year	183,174
<i>Reconciliation of Operating Loss to Net Cash <u>Used for Operating Activities:</u></i>	
Operating Loss	(12,598)
<i>Adjustments to Reconcile Operating Loss to <u>Net Cash Provided by Operating Activities:</u></i>	
<i><u>(Used for) Operating Activities:</u></i>	
Increase in Claims Payable	26,283
Net Cash Provided by Operating Activities	\$13,685
See accompanying notes to the basic financial statements	

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	Private Purpose Trust	Agency
	<hr/>	<hr/>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$1,002	<u><u>\$23,826</u></u>
<u>Liabilities:</u>		
Undistributed Monies	<u>0</u>	<u><u>\$23,826</u></u>
<u>Net Assets:</u>		
Held in Trust for Scholarships	<u><u>\$1,002</u></u>	

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Contributions and Donations	\$2,352
<u>Deductions:</u>	
Payments in Accordance With Trust Agreements	<u>2,404</u>
<i>Change in Net Assets</i>	(52)
<i>Net Assets Beginning of Year</i>	<u>1,054</u>
<i>Net Assets End of Year</i>	<u><u>\$1,002</u></u>

See accompanying notes to the basic financial statements

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Adena Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. 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 provides educational services as authorized by State statute and federal guidelines.

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 52 non-certificated employees, 78 certificated full-time teaching personnel and 5 administrative employees who provide services to 1,248 students and other community members. The School District currently operates two instructional buildings.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District 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 School 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 Research 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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Adena Local School District have been prepared in conformity with generally accepted accounting principles (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 before November 30, 1989, to its governmental activities and internal service fund 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.

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 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 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the School District.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Internal Service Fund is presented on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 Fund

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
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) 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 (e.g., revenues) and decreases (e.g., 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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The government-wide financial statements and the financial statements of the proprietary and fiduciary funds are prepared using 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 Nonexchange 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. "Measurable" means the amount of the transaction can be determined and "available" means that the resources are collectible 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.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available for 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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 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 the governmental funds.

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

E. Cash and Cash Equivalents

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

The School District participates in a claims servicing pool that pays employee health insurance claims on the School District's behalf. The balance of the School District's funds held by the claims administrator and the fiscal agent at June 30, 2004, is presented as "Cash and Cash Equivalents with Fiscal Agent" on the financial statements.

During fiscal year 2004, 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, 2004.

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 during fiscal year 2004 amounted to \$49,237 which includes \$25,081 assigned from other School District funds.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/ expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. 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 year. Donated capital 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 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:

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

I. 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.

J. 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 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 classified and certified employees after fifteen years of current service with the School District.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due 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 employees who have accumulated leave are paid.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the proprietary funds are reported on the 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, 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 in the current year. Bonds and capital leases that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

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

M. 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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. 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.

O. Budgetary Process

All funds, other than agency funds, 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 sets 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 has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the 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 statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

The appropriation resolution is subject to amendment by the Board throughout the 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 years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

P. 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 and for the acquisition or construction of capital improvements. See Note 16 for additional information regarding set-asides.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. 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, textbooks and instructional materials and capital improvements.

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 PRINCIPLES

For fiscal year 2004, the School District has implemented GASB Statement No. 34, “*Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments,*” GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”, GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”, GASB Statement No. 39, “*Determining Whether Certain Organizations are Component Units*”, GASB Statement No. 41, “*Budgetary Comparison Schedules - Perspective Differences.*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*”.

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

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, “*The Financial Reporting Entity*”. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2004.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement had no effect on the presentation of budgetary statements by the School District for fiscal year 2004.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

The implementation of these Statements and the fund reclassifications had the following effect on the fund balances of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor	Total
Fund Balances, June 30, 2003	\$1,644,242	\$697,713	\$2,341,955
Interpretation No. 6 Adjustments	13,848	0	13,848
Fund Reclassifications	16,594	(16,594)	0
Adjusted Fund Balances, June 30, 2003	\$1,674,684	\$681,119	2,355,803
GASB No. 34 Adjustments:			
Deferred Assets:			
Intergovernmental Receivables			56,269
Delinquent Property Taxes			40,245
Capital Assets			25,703,769
Intergovernmental Payable			(91,363)
Accrued Interest Payable			(11,679)
Long-Term Liabilities:			
Bonds Payable			(2,530,000)
Capital Leases			(128,538)
Compensated Absences			(568,202)
Internal Service Fund Balance			102,512
Governmental Activities Net			102,512
Assets, June 30, 2003			\$24,928,816

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 4 - ACCOUNTABILITY

At June 30, 2004, the Food Service, Disadvantage Pupil Impact Aid, Title VI-B, Title I and Title VI-R Special Revenue Funds had deficit fund balances of \$1,950, \$176, \$525, \$17,681 and \$494, respectively, which were created by the application of generally accepted accounting principles. 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 balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – 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 basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

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

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

Net Change in Fund Balance

	General
GAAP Basis	(\$379,792)
Adjustments:	
Revenue Accruals	(6,301)
Expenditure Accruals	105,423
Encumbrances	(215,400)
Advances	(18,979)
Unrecorded Cash for Fiscal Year 2003	61
Budget Basis	(\$514,988)

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

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

Protection of the 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 repayment of all public monies deposited with the institution.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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: At fiscal year-end, the carrying amount of the School District's deposits was \$1,962,244 and the bank balance was \$1,976,184. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,776,184 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and 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 Federal Deposit Insurance Corporation.

Investments: The School District's investments in STAROhio, 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>Fair Value</u>
STAROhio	<u>\$882,709</u>

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 Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."*

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:

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,844,953	\$0
Investments		
STAROhio	(882,709)	882,709
GASB Statement No. 3	\$1,962,244	\$882,709

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 tax distributions occur in the first half of the following fiscal year.

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

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

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

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 7 - PROPERTY TAXES (continued)

The School District receives property taxes from Ross County. The 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30, 2004, was \$204,030 and is recognized as revenue: \$174,089 in the General Fund, \$25,985 in the Bond Retirement Debt Service Fund and \$3,956 in the Classroom Facilities Maintenance Special Revenue Fund. The amount available as an advance at June 30, 2003, was \$171,433 and was recognized as revenue: \$146,211 in the General Fund, \$21,893 in the Bond Retirement Debt Service Fund and \$3,329 in the Classroom Facilities Maintenance Special Revenue Fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$68,945,180	90.21%	\$70,734,380	90.31%
Public Utility	5,100,920	6.68%	5,135,190	6.56%
Tangible Personal Property	2,378,840	3.11%	2,455,140	3.13%
Total Assessed Value	<u>\$76,424,940</u>	<u>100.00%</u>	<u>\$78,324,710</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$37.30		 \$37.30	

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts, intergovernmental grants, and interfund. The Self-Insurance Internal Service Fund intergovernmental receivables consist of claims payments made on behalf of other members of the Ross County Insurance Consortium using surplus monies of the School District. 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 fiscal year guarantee of federal funds. All receivables are expected to be received within one year for the intergovernmental receivable in the Internal Service Fund.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Food Service	\$8,685
Title VI-B	44,080
Chapter I	34,208
Title VI-R	12,477
Title VI-R	4,946
Internal Service	25,359
Total Intergovernmental Receivables	<u><u>\$129,755</u></u>

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 9 - CAPITAL ASSETS

A summary of the changes in general capital assets during fiscal year 2004 follows:

	Restated Balance At 6/30/2003	Additions	Deletions	Balance At 6/30/2004
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$820,699	\$0	(\$143,655)	\$677,044
Depreciable Capital Assets:				
Land Improvements	2,567,445	87,058	0	2,654,503
Buildings and Improvements	21,094,796	15,190	0	21,109,986
Furniture, Fixtures, Equipment and Textbooks	3,208,931	448,930	(124,620)	3,533,241
Vehicles	810,926	136,623	(29,704)	917,845
Total Depreciable Capital Assets	<u>27,682,098</u>	<u>687,801</u>	<u>(154,324)</u>	<u>28,215,575</u>
Total Capital Assets At Historical Cost	<u>28,502,797</u>	<u>687,801</u>	<u>(297,979)</u>	<u>28,892,619</u>
Less Accumulated Depreciation:				
Land Improvements	(364,609)	(134,540)	0	(499,149)
Buildings and Improvements	(1,000,099)	(651,133)	0	(1,651,232)
Furniture, Fixtures, Equipment and Textbooks	(860,933)	(423,034)	92,744	(1,191,223)
Vehicles	(573,387)	(63,231)	29,704	(606,914)
Total Accumulated Depreciation	<u>(2,799,028)</u>	<u>(1,271,938) *</u>	<u>122,448</u>	<u>(3,948,518)</u>
Depreciable Capital Assets, Net	<u>24,883,070</u>	<u>(584,137)</u>	<u>(31,876)</u>	<u>24,267,057</u>
Governmental Activities Capital Assets, Net	<u>\$25,703,769</u>	<u>(\$584,137)</u>	<u>(\$175,531)</u>	<u>\$24,944,101</u>

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$687,041
Special	78,296
Vocational	46,305
Support Services:	
Pupils	32,544
Instructional Staff	62,242
Administration	46,047
Fiscal	10,609
Operation and Maintenance of Plant	121,596
Pupil Transportation	63,895
Central	15,840
Operation of Non-Instructional Services	87,496
Extracurricular Activities	20,027
Total Depreciation	<u><u>\$1,271,938</u></u>

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 2004 the School District contracted with Indiana 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)	\$23,571,752
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
ROSS COUNTY**

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

NOTE 10 - RISK MANAGEMENT (continued)

During fiscal year 2004, 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).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

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

Educational 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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 10 - RISK MANAGEMENT (continued)

For fiscal year 2004 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.

Medical/surgical and dental insurance is offered to employees through the Self-Insurance Internal Service Fund. The School District is a member 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 \$118,619 reported in the Self-Insurance Internal Service Fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 30, "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 claims adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2003	\$118,893	\$530,662	\$557,219	\$92,336
2004	92,336	1,530,245	1,503,962	118,619

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent 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. For fiscal year 2003, 8.17 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$125,348, \$126,151, and \$49,558, respectively; 43.60 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$70,700 represents the unpaid contributions for fiscal year 2004.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$528,545, \$521,476, and \$308,601, respectively; 83.54 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$819 made by the School District and \$4,528 made by the plan members.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, four members of the Board of Education have 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 Ohio), 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.

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$40,657 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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 percent of the premium.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$92,624.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of 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 \$335.2 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 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Administrators earn twenty days of vacation per fiscal year, with unlimited accrual. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service with unlimited accumulation. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment up to a maximum of two years' accumulated vacation days. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 47 days for administrators, classified and certified employees.

B. Life Insurance

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

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 13 - EMPLOYEE BENEFITS (Continued)

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, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District has entered into capitalized leases for the acquisition of reproduction equipment. Each lease meets the criteria of a capital lease as defined by 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.

General capital assets consisting of reproduction equipment have been capitalized in the amount of \$156,328. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2004 totaled \$27,500 in the General Fund.

The assets acquired through capital lease as of June 30, 2004, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Copier Equipment	\$156,328	\$61,403	\$94,925

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

Fiscal Year Ending June 30,	Total Payments
2005	\$36,239
2006	36,239
2007	23,306
2008	19,422
Total	115,206
Less: Amount Representing Interest	(14,168)
Present Value of Minimum Lease Payments	\$101,038

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Restated Amount Outstanding <u>6/30/2003</u>	<u>Additions</u>	<u>Deductions</u>	Amount Outstanding <u>6/30/2004</u>	Amount Due Within <u>One Year</u>
<u>General Obligation Bonds:</u>					
1999 School Improvement Bonds 5.36%	\$2,530,000	\$0	\$80,000	\$2,450,000	\$85,000
<u>Other Long-Term Obligations:</u>					
Capital Leases Payable	128,538	0	27,500	101,038	29,601
Compensated Absences Payable	568,202	96,492	60,604	604,090	68,949
Total Long-Term Obligations	<u>\$3,226,740</u>	<u>\$96,492</u>	<u>\$168,104</u>	<u>\$3,155,128</u>	<u>\$183,550</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
ROSS COUNTY**

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

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	210,000
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 \$4,779,422 with an unvoted debt margin of \$78,325 at June 30, 2004.

Principal and interest requirements to retire the School Improvement Bonds outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	Serial Bond Principal	Serial Bond Interest	Term Bond Principal	Term Bond Interest	Total
2005	\$85,000	\$73,189	\$0	\$61,460	\$219,649
2006	90,000	69,162	0	61,460	220,622
2007	90,000	65,033	0	61,460	216,493
2008	95,000	59,991	0	61,460	216,451
2009	100,000	55,212	0	61,460	216,672
2010-2014	590,000	190,084	0	307,300	1,087,384
2015-2019	290,000	19,470	510,000	266,325	1,085,795
2020-2022	0	0	600,000	51,395	651,395
Total	<u>\$1,340,000</u>	<u>\$532,141</u>	<u>\$1,110,000</u>	<u>\$932,320</u>	<u>\$3,914,461</u>

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

(Continued)

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, 2003	\$112,460	\$42,493
Current Year Set-aside Requirement	156,854	156,854
Current Year Offsets	0	(35,454)
Qualifying Disbursements	(213,953)	(148,686)
Set-aside Reserve Balance as of June 30, 2004	\$55,361	\$15,207

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 \$49,358 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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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.

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 possess 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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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.

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.

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 18 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS
(continued)

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 marketing representative, which establishes agreements between OSP and member schools.

NOTE 19 - INTERFUND ACTIVITY

Interfund balances at June 30, 2004, consist of the following individual interfund receivables and payables:

	Receivable	
	General	
Payable		
All Other Nonmajor Funds	\$29,430	

The General Fund advances are made to move unrestricted balances to support programs accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

Transfers made during the year ended June 30, 2004 were as follows:

	Transfer To	
	All Other Nonmajor Funds	
Transfer From		
General	\$5,607	

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

NOTE 19 - INTERFUND ACTIVITY (continued)

General Fund transfers are made to move unrestricted balances to support programs accounted for in other 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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

NOTE 21 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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, 2004.

B. Litigation

The School District is currently not party any legal proceedings.

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**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation (See Note "B")	N/A	10.550	\$0	\$20,365	\$0	\$20,365
National School Lunch Program	LL-P4-2003	10.555	12,414	0	12,414	0
National School Lunch Program	LL-P4-2004	10.555	63,569	0	63,569	0
Total National School Lunch Program			75,983	0	75,983	0
TOTAL U.S. DEPARTMENT OF AGRICULTURE- CHILD NUTRITION CLUSTER			75,983	20,365	75,983	20,365
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	C1-S1-2003	84.010	34,186	0	34,231	0
Title I Grants to Local Education Agencies	C1-S1-2004	84.010	234,845	0	234,447	0
Total Title I Grants to Local Education Agencies			269,031	0	268,678	0
Special Education Grants to States	6B-SF-03-P	84.027	10,373	0	10,380	0
Special Education Grants to States	6B-SF-04	84.027	108,307	0	133,527	0
Total Special Education Grants to States			118,680	0	143,907	0
State and Drug Free Schools and Communities State Grant	DR-S1-2004	84.186	9,469	0	9,469	0
State Grants for Innovative Programs	C2-S1-2003	84.298	(42)	0	82	0
State Grants for Innovative Programs	C2-S1-2004	84.298	7,336	0	7,336	0
Total State Grants for Innovative Programs			7,294	0	7,418	0
Education Technology State Grants	TJ-S1-2003	84.318	5	0	5	0
Education Technology State Grants	TJ-S1-2004	84.318	8,357	0	8,328	0
Total Education Technology State Grants			8,362	0	8,333	0
Assistive Technology Infusion Program	AT-S3-2002	84.352	(6,819)	0	0	0
Rural Education	RU-S1-2003	84.358	4,690	0	4,697	0
Rural Education	RU-S1-2004	84.358	4,032	0	4,032	0
Total Rural Education			8,722	0	8,729	0
Improving Teacher Quality State Grants	TR-S1-2003	84.367	13,622	0	13,679	0
Improving Teacher Quality State Grants	TR-S1-2004	84.367	78,284	0	78,257	0
Total Improving Teacher Quality State Grants			91,906	0	91,936	0
TOTAL U.S. DEPARTMENT OF EDUCATION			506,645	0	538,470	0
<u>NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</u>						
<u>OFFICE OF LIBRARY SERVICES, INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>						
<i>Passed Through State Library of Ohio -Office of Library Services</i>						
State Library Program	V-1-04	45.310	3,000	0	500	0
Total Federal Awards			\$585,628	\$20,365	\$614,953	\$20,365

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

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - TRANSFERS DUE TO ADMINISTRATIVE ACTION

The District transferred funds between 2003 and 2004 special cost centers during fiscal year 2004 for the following: CFDA 84.298 - \$42. This was due to the revised Comprehensive Continuous Improvement Plan Strategy (CCIP) as of July 2002, which is an attempt to promote consistency between fiscal periods, allows the local agencies to manage one ODE project at a time, and eliminates refunds to ODE.

NOTE D - REFUND OF MONEY

The District refunded \$6,819 in unspent grant monies to the Ohio Department of Education for CFDA 84.352 due to the expiration of the period of availability.



Auditor of State Betty Montgomery

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

Adena Local School District
Ross County
3367 County Road 550
Frankfort, Ohio 45628

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Adena Local School District, Ross County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 11, 2005, wherein we noted the District adopted *Governmental Accounting Standards Board Statement No. 34*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

35 N. Fourth St. / Second Floor / Columbus, OH 43215
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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

April 11, 2005



Auditor of State Betty Montgomery

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

Adena Local School District
Ross County
3367 County Road 550
Frankfort, Ohio 45628

To the Board of Education:

Compliance

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

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

In our opinion, the Adena Local School District, Ross County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

April 11, 2005

**ADENA LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title 1 Grants to Local Education Agencies- CFDA # 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

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
MAY 5, 2005**